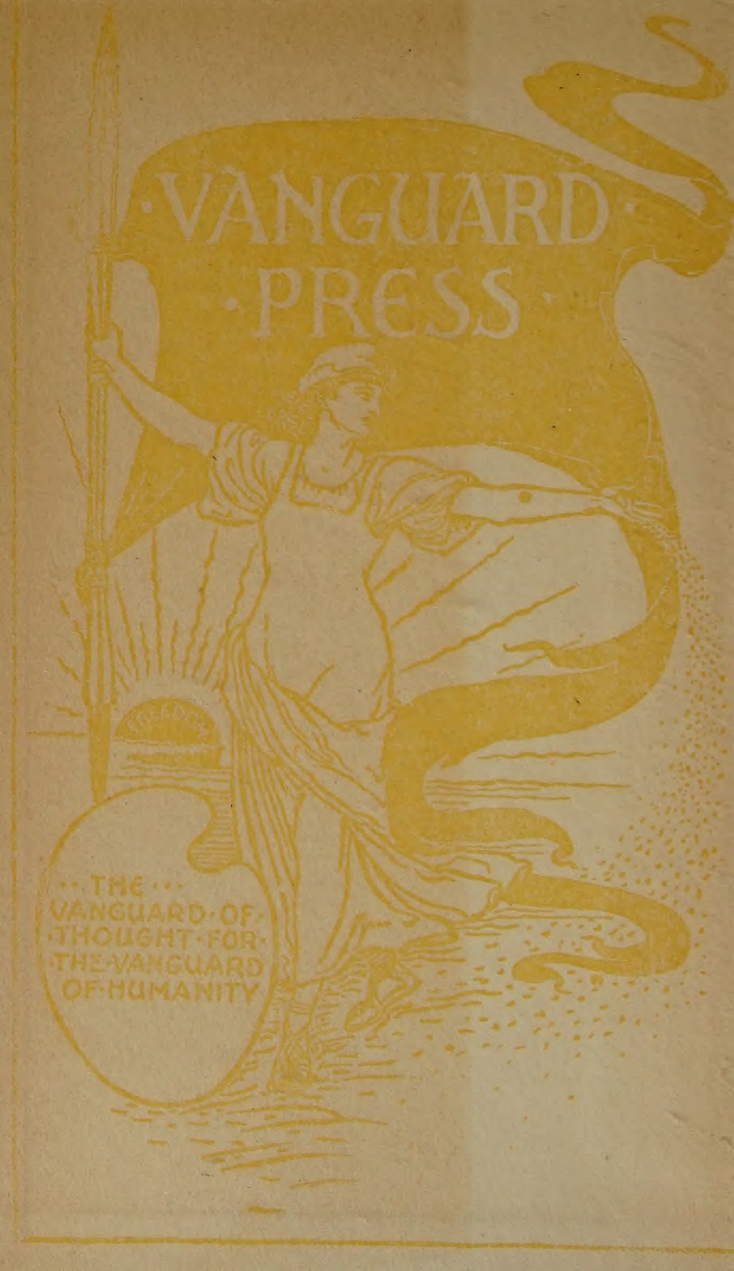
NEW TACTICS IN SOCIAL CONFLICT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New Tactics in Social Conflict

Symposium by

HARRY ELMER BARNES, STUART CHASE, SCOTT NEARING, GEORGE SOULE, ROBERT W. DUNN, J. S. POTOFSKY, H. S. RAUSHENBUSH, BENJAMIN STOLBERG, ORDWAY TEAD, JAMES H. MAURER, FANNIA M. COHN, LELAND H. JENKS, M. M. KNIGHT, MCALISTER COLEMAN AND OTHERS

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INTRODUCTION

IT is part of the creed of the good Rotarian and his hundred per cent American brothers that in this blessed country there is no such thing as a social conflict. Judge Gary and the steel workers; Mr. Rockefeller and the coal miners and oil workers, Senator Butler and his twenty dollar a week textile employees, all have identical interests. Occasional differences of opinion are only due to misunderstanding or to the baleful influence of "outside agitators."

But it is to be feared that even the orthodox Rotarian like many another religious believer keeps his creed for special occasions. Let his own interests be touched and he does not act as if they were identical with those of the men who challenge him. When we get down to brass tacks, all of us know that there is a social conflict. Owners want more dividends, workers more wages. Landlords want higher rents, tenants cheaper and better homes. Managers want a kind of efficiency which often means a terrible slavery to the workers. Producers want high prices, consumers want low. And so we might go on, but we are now concerned with the basic conflict between capital and labor—to use the common phrase. More accurately, we are concerned by the struggle which inevitably rises, no matter how it may be concealed, when land and natural resources and the principal means of production are privately owned and managed for profit, which profits legally belong not to the hired workers but to the owners.

Although labor in America has been generally conservative in theory, in practice it has tended to fight out this struggle in terms of brute conflict. Nowhere in the

world has the labor struggle in time of strikes been more bitterly fought than here in America. Nowhere in the world, until very recently, were organizations of workers more exclusively occupied with the problem: How can we wrest better wages, shorter hours, and better working conditions from the bosses? Roughly speaking, the conflict between the owners of industry in America, or the managers in their behalf, and the workers whom they employ was up to the time of the World War fought on the simplest plane. The workers sought to organize; the bosses sought to prevent them. Once organized the workers struggled for as good wages and as short hours as they could get. That was their business. Not for them were problems of production and management and efficiency.

To-day the picture has changed. Two-fisted labor leaders are becoming bank directors. It is proclaimed that the solution of the social conflict is for every worker to become a capitalist. And while it is doubtful if any union accepts this cheerful theory of Professor Carver's, it is certain that there is an extraordinary interest in seeing what labor can do through its own banks and investment companies. While these banks may have some coöperative features it is to be noted that it is not coöperation on the Rochedale plan but a sort of trade union capitalism which is gaining ground. (It is also to be noted that as yet this growth in trade union capitalism has not been attended by a growth in trade union membership.)

Surprising as this labor development would prove to any Rip Van Winkle on awaking from a ten-year sleep he would be at least equally surprised to discover the zeal with which many employers are promoting the organization of their employees—in company unions, to be sure—and the extraordinary extent to which they have gone in for welfare and personnel work. The modern employer is bound to have a happy family even if he has to pay an army of spies to keep out malcontents who don't appreciate their blessings.

These changing tactics both of the unions and the employer have accompanied and, indeed, have depended upon a tremendous increase in American prosperity both actual and relative to the rest of the world. With something like 6 per cent. of the population we have 40 per cent. of the world's wealth. Even a slump in prosperity, profoundly as it might affect the workers, would not alter this basic fact. We have embarked, almost without knowing it, on the most ambitious career of economic imperialism that the world has seen. The vastness of this development has been attended by changes in the nature of property ownership and control and an acceleration of the sweep toward industrial combination, the extent and implications of which from the social standpoint have been too little examined. Consider, for instance, the extent to which corporations are pushing the sale of stock both to employees and consumers. We are still arguing for and against capitalism as if we lived in the days of Adam Smith and his immediate successors, although Adam Smith would gasp with amazement at the economic development which his principles are cited to defend.

Facts like these cry aloud for discussion. Labor banking, company unions, non-voting stock, the sale of stock to employees and consumers, the new types of combination and competition, the march of American economic imperialism—these are not isolated phenomena. They profoundly affect the hopes and fears alike of those whom we call conservative and radical. Are these changes to be regarded as newer defenses for capitalism, or as, on the whole, steps in the development of a new and better social order? Can we give any blanket judgment concerning them or must we discriminate carefully in estimating their effects? How far is the new capitalism meeting the material and spiritual demands of the workers? Questions like these bristle with controversial points.

The first attempt to examine them connectedly and thoughtfully, more particularly from a labor point of view,

was made by the League for Industrial Democracy at its summer conference in Camp Tamiment at the end of June 1926. The discussions proved to have unusual value. They form the subject matter of this book. The book is not a routine record of proceedings. It is a live and stimulating exchange of opinions based on knowledge of the facts. The conference began with a preliminary discussion of what America is doing or allowing the exploiters to do with indispensable natural resources—forests, coal, water power, and the electric super-power which is developed by the use both of coal and water. We are publishing a summary of this as a concluding section and are beginning the book with the main subject of the conference, which we called at the conference the Newer Defenses of Capitalism but which in the book we are styling New Tactics of Social Conflict. That subject is here presented in certain main sections—The Changing Relations between Property Ownership and Control, The Trade Unions Enter Business, The Changing Tactics of Employers toward Workers, The Sweep Toward Industrial Combinations, and American Economic Imperialism. The relations between them are made apparent by the discussions. The conference ended with some consideration of that most interesting war and post-war development—The New Propaganda. How it is used to serve the interest of business men and politicians to "sell" to the public stocks of great corporations, or the Mellon tax plan, or American intervention in Latin America, everybody knows. How it might be used for labor is another matter worth thinking about.

It is just this process of thinking which we hope the book will stimulate. Its discussions have more than a temporary value, for while statistics will change, the main lines of economic development in the United States have been pretty clearly marked out for the next few years. Whatever tactics the parties to our social conflict may adopt, they will have to take account of the developments which

are frankly discussed in these chapters. The value of the book in no small degree lies in its controversial quality. Yet behind the controversy lies the great belief that man has it in his power to use his scientific and technical skill for his own emancipation and not for his further enslavement to poverty, ugliness, drudgery, suspicion and hate.

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NEW TACTICS IN SOCIAL CONFLICT

SECTION I. CHANGING RELATIONS BETWEEN PROPERTY OWNERSHIP AND CONTROL

"NEW TACTICS in Social Conflict" was the subject of the Twelfth Annual Conference of the League for Industrial Democracy held on June 25 to 27, 1926, at Camp Tamiment, Pa. The initial session of this conference was devoted to the growing divorce between ownership and control of industry which the large corporation was bringing about. George Soule, an editor of the *New Republic* and a Director of the Labor Bureau, Inc., was the principal speaker. Norman Thomas, Executive Director of the L. I. D., presided.

Soule on Changing Control

MR. SOULE: You may not agree with the assumption on which I am about to proceed, but I believe it is worth considering. It is this. The present economic order, which we crudely label "capitalism," is a varied and rapidly changing thing. It is capable of being changed in detail and by degrees as well as by a sudden overturn. The test of any specific change is whether it lies in the direction of the outcome we favor. That outcome is briefly summarized in the title and aim of the L. I. D.—some form of workers' control over the industries in which they are

employed, and production for use rather than for profit. This is the test I want to apply to some of the changes that are taking place in property ownership and control.

Traditional Theory of Private Ownership

In order to place these changes in perspective it will be worth while to recall for a moment the traditional, conservative theory of the private ownership of productive property. According to this theory a man with capital may do several things with it. He may be hoarding it and make no use of it at all. This act is of no benefit to society. He may loan it at a stipulated rate of interest. In this way it is, as the saying goes, "put to work." The capitalist, however, incurs as little risk as possible; he usually demands a mortgage or some other good collateral. His returns are correspondingly small. Furthermore, he has little control over and assumes no responsibility for the conduct of the enterprise to which his money is loaned. Bonds and mortgages are supposed to be investments of this kind. The man with capital may, thirdly, actually buy or set up a business. He becomes the owner not of so many dollars but of the actual plant or concern. He thus incurs a greater risk of loss and becomes entitled to a larger return—if he can make it—than the lender of money. He has power over the concern and responsibility. His risk and his possible profit stimulate him to be diligent in the conduct of his business and to manage it as efficiently as possible. This is the principal driving motive upon which we are supposed to depend for the operation and improvement of our economic life. It is the very heart of the system of private enterprise. Common sense everywhere has taught people that a man is likely to take better care of something which is his own than of another's property. Separate profit and ownership from risk and responsibility and you remove the whole justification of profit—in fact, if the traditional economist

was right, you condemn the whole industrial system to dry-rot.

Recent Changes

There are still some individual businesses or partnerships of this simple description. But the invention of the corporation or joint stock company has in most cases turned the individual owner into a group of stockholders. In legal theory and in economic tradition, however, the stockholder bears the same relationship to industry and society as does the individual proprietor. The owner of shares of common stock is supposed to have complete power and responsibility for the management of business—except in so far as he may be limited by the police power of the state. He is supposed to exercise this power in the way common to representative democracy—by voting for directors to manage the company.

Now, queer things have lately been done in regard to the ownership of common stock. Efforts have been made to sell it, not merely to capitalists looking for a return on their money, but to the wage-earners and customers of large corporations. One professed justification for this policy is that it extends industrial democracy by giving representation to the two estates hitherto excluded from business control. Indeed, if the traditional theory of ownership held good, it would seem to do so. To make workers and customers partners in the industry, sharers in its profits and management, is apparently to admit the commonalty to the electorate of business formerly occupied solely by the capitalist—large or small.

Advantages of Employee Ownership—to Employer

Any brief examination of the actual cases in which stock ownership has been distributed reveals, however, that, with a very few exceptions, the company does not actually aim to grant control to employees through ownership. I find

listed in a recent survey of employee stock ownership by Mr. C. A. Bowers of the Industrial Relations Counselors, Inc., the following possible benefits to the employer:

1. It encourages saving and thus maintains employee efficiency in periods of unemployment or illness.
2. It testifies to the good will of the employer and thus strengthens working morale.
3. It reduces labor turnover by binding the employee to the company with a financial bond.
4. It attracts labor which is above the average in responsibility.
5. It improves working efficiency through the knowledge of the worker that his income is partly dependent on the company's prosperity.
6. It makes the worker a capitalist in viewpoint and thus renders him a conservative and immune to radical ideas.
7. It gives the employee a first-hand experience with investments.
8. It protects the power of the existing management by widening the distribution of stock and thus making it harder for outsiders to buy up a controlling interest.
9. It taps new sources of capital, thus making it easier for the company to secure funds.
10. It strengthens the trend to popular ownership which is believed to be desirable in general.

Questionable Good to Workers

Mr. Bowers does not say that all these benefits to the employer necessarily follow. Other critics have pointed out that many of them certainly will not follow unless the policy of the company is good in other respects. For example, it is risky from the point of view of encouraging thrift to ask the employee to put all his savings in the

common stock of one industrial concern. And if he loses money as a result he will not think much of the employer's good will or feel much obligation toward the company. Moreover, the income from the investment is so small in relation to the wage payment that the sensible worker will hardly adopt any attitude that he would not as a wage-earner be induced to adopt anyway. Some of these obstacles may be overcome by a sufficiently strong, stable, and intelligent concern. In many cases the company contributes to the employee purchase or gives special privileges to employee stockholders in the way of guaranteed return. We should not too quickly leap to the conclusion that the employer's expected benefits are necessarily all bunkum—that under no circumstances can he get away with it.

The important point is, however, that in not one of these aims, except possibly the tenth, is there implied any acquisition of control over management on the part of the employee-stockholder. One, indeed, the eighth, implies that by scattering the stock more widely such a plan protects the power of the existing management against *any* other control. Except in rare cases, those in power over business concerns do not really think they are democratizing the control of industry by encouraging what they call popular ownership. Real industrial democracy is the last thing they want. In industry as in politics they are ready to use the forms of democracy in order to perpetuate their own power.

Mr. Bowers estimates that there are at least 250, and probably from 300 to 400, companies in the United States which have employee stock purchase plans, and there are employed in these concerns at least a million and a half-persons—not all of whom, of course, own stock. Many industries are represented. Mr. Bowers states that of the companies examined, the percentage of employees owning stock varies according to size. In the smaller concerns—those having less than 1,000 employees—all but one report

that 30 per cent. or more participate in the plan. Only one-half of the companies employing from 1,000 to 5,000 report a participation of as much as 30 per cent. Out of the thirteen companies examined having 5,000 or more workers only four have, in Mr. Bowers' term, "general participation."

It is thus clear that while the movement is widespread, and significant of something, it is hardly significant of general employee control, for one reason because the majority of employees do not participate. The largest participants are, of course, the officers and administrative forces rather than the wage-earners. It may be added that there is no really important concern in which employees own, or are likely to acquire, a majority of the stock. It is true that minority interests may, and often do, control companies, but in such cases the stockholdings are usually in the hands of a relatively few strategically placed persons. In very few important concerns with employee stock ownership plans is there any device for mobilizing the ownership power of the employees or providing them with any representation. And I know of no important company which is actually controlled by employee stockholders.

Concentration of Control

In fact, W. Z. Ripley of Harvard only a few months ago objected to popular stock ownership as one device for so scattering shares as to prevent control of business by its owners. Another recent device mentioned by him is the issuance of non-voting stock. This is usually a special class of stock which is like ordinary common stock in that it shares something of the risks and profits of the concern and thus is attractive to speculative investors. But it carries no right to vote for directors or exercise control. This control is reserved for a few closely held "management shares." The buyer of non-voting shares puts up the cash, while the owner of management shares, who often has

risked no money of his own, runs the business and stands to make the lion's share of the profits.

The Investment Trust

Three other comparatively recent developments have limited the supposed rights of corporate owners and tended to concentrate the control of business—though this was not in all cases their primary object. First, holding companies, particularly in the field of public utilities, control large numbers of subsidiaries in such a way that the small stockholder is separated from power over management by a thicket of intercorporate entanglements. Second, insurance companies, investment companies, and the like hold and vote large blocks of stock which they have acquired with the money saved and entrusted to them by small investors. And third, the investment trust—perhaps the most recent and significant development of all—separates the owner from control of his property. A word as to the nature of the investment trust is in order. It is well known by students that the investor in stocks stands to make much more on his money than the investor in bonds or the depositor in savings banks—not merely because dividends are often larger than interest, but because the stockholder shares in the growth of the capital value of his company and loses nothing by the changing value of money, while the capital of the bondholder remains at a stated number of dollars, which may depreciate. The small investor, however, cannot safely buy stocks for two reasons. First, he has not the time and expert knowledge to pick the right stocks and buy and sell at the right times. Second, his capital is not large enough so that he can protect himself against the extra risk of loss in stocks by purchasing a number of different issues, instead of putting all his eggs in one basket. Both these difficulties can be overcome if a number of small investors pool their savings. The investment trust exists for this purpose. It furnishes expert

knowledge in the purchase of stocks, and is able to diversify the investment because a number of small investors have pooled their money in it. But, of course, it is the management of the trust which owns or votes the stock, not the individual investor.

Professor Ripley and certain other commentators, standing on the traditional theory of the responsibility of ownership, are alarmed at these tendencies and recommend remedies which they hope will restore power to the individual owner. One of the reasons why the stockholder exercises so little control is because he knows so little about what his corporation is doing. Mr. Ripley therefore wants governmental supervision of accounts, with regular publicity of financial statements. He also wants to abolish non-voting stock. These appear to me feeble remedies for the situation which is pictured. We cannot do away with holding companies, insurance companies, investment trusts. Even if these latter developments had not appeared, the simple existence of the large corporation with perhaps hundreds of thousands of stockholders is a well-nigh insuperable obstacle to ownership control. The United States Steel Corporation, the American Telephone and Telegraph Company, the General Electric Company, publish exhaustive financial statements and have a widely distributed ownership, including employees, yet there is no pretense that the individual small stockholders do or can exercise any control over their policies.

General Ownership Control Unwise

I doubt, furthermore, the wisdom of general ownership control under present conditions, even if it could be established. The spectacle of political campaigns among thousands of widely distributed absentee owners, who have no special knowledge of industrial problems and care chiefly for the size of their dividend checks is one that might well appall us. It would be an application of the worst features

of democracy—without any of the checks of expert knowledge and functionalized administration which exist in the most advanced political systems. I believe we should rather face the fact that modern large-scale industry has developed to a point such that ownership control has lost its reality. We can no longer depend on the simple operation of private enterprise and the profit motive to furnish the drive for good industrial management, as we seemed to do in the old days of small and personal business. We must develop other motives and other institutions, which have perhaps existed in embryo and little suspected within the old order.

Professionalization of Management

The first of these to which we may direct our attention is the professionalization of management as distinct from ownership. Already most of our great utilities and industrial enterprises are directed by men who, while they may be part owners, are in the main salaried executives managing other people's property. Their chief motive is not actually to amass profits for themselves. They wish also to make good records as executives; to do well according to prevailing standards, to maintain their prestige, to have the fun of directing and developing an undertaking of importance. The class of executives already has a morale and class-consciousness of its own which, because it is young and vigorous, is sometimes an unduly sensitive and aggressive one. Instances have been recorded in which such an executive has defied even the closely held minority ownership which is supposed to control the property in question. Executives of this type may be extremely reactionary in their social viewpoints; they may be so jealous of their power and position that they adopt towards labor, for instance, an attitude more hard-boiled than financiers or bankers want them to adopt. Nevertheless, the point is that we have here a strong motive not directly associated

with private ownership, which may be made useful. I believe there is even greater danger to society at this moment from misdirected zeal of hired executives than there is from indolence or graft arising from the fact that they do not own the properties they manage.

The Management Motive

The motive is there; the problem is, as I see it, to surround it with the proper personnel, training, standards of performance, and checks, in the public interest. One great difficulty now is that no adequate distinction has yet been made in our general thought and education between the profit-motive and the management-motive. Though the managers act independently, the standards which they too often apply to their action are the standards held over from the old order of small private enterprise. In cases where social welfare or engineering efficiency clash with the traditional assumptions of capitalism, the executive has, by training, education, and habit, usually been conditioned to respond as if he were a profit-seeking owner. More than that, in the absence of complete personal ownership which would give him a certain amount of discretion, in the absence of the automatic checks to action which appear quickly in a small business but are not so apparent in a giant organization, the executive has been forced to build himself a code or religion on the basis of which to make decisions, and this code has been founded in too many cases on a strict formalization of the profit and private-enterprise ideology. Hence, "business is business"; hence the "soulless corporation." The hired executive is often more a conscientious capitalist than the capitalist himself. He will sometimes fight labor to the end, because in his view unions are morally wrong and not to be tolerated in the social order, where the managing owner of a small business would come to terms with the unions because,

pragmatically considered, it was more convenient to compromise, and in the end more profitable.

One great task is, then, to alter the training and selection of executives to penetrate their consciousness with new ideas, such that social efficiency will have a larger place in their scheme of things. This task becomes constantly easier as the science and technique of management develop, as concrete standards, measurements of performance, and tests of results are built up to take the place of the capitalist religion and the inherited prejudice as the basis of the executive's decisions. For this reason I regard the work of the engineering societies, particularly the Taylor Society, as of tremendous importance, and I even look with some hope on the future of schools of business administration. Economic research also takes its place in this movement. The vast and, in some instances, absurd proliferation of business and economic statistics, of accountancy, of expert business advisers, of courses in business administration, of scientific research into personnel problems and of new engineering technique in management means in its largest sense that management is developing a pragmatic methodology to take the place of the vanishing profit motive of the managing owner.

Public Control

There is also the possibility of applying the standards and checks to management through the agency of public control. One authority on railroad regulation has already suggested that all pretense of the profit motive be eliminated from the industry, that all railroad capital be refunded and issued entirely in the form of securities having a fixed and guaranteed return, that the railroad executives be stimulated, not by the stockholders' control and profit, but by standards of performance built up from the already elaborate array of railroad statistics built on standard accounting.

Union-Management Coöperation

Another movement of great importance that may be substituted for the owner as an incentive to efficiency and a check on slack administration is union-management coöperation, such as has developed in railroad shops. Give the unions a stake in efficient performance, organize their powers to help management improve service, and you have an ever-present, active force stimulating management to eliminate waste all along the line so that the conditions of labor and service to the public may be improved. Experience has shown on the Baltimore and Ohio and other roads that this force is indeed a real one which has improved not only shop practice but general management materially. It will work under the forms of private ownership; it will work still better where the private owner is entirely eliminated as on the Canadian National.

It is possible, too, that employee or consumer stockholders, if properly organized, and equipped to function, might use the old form of ownership to express their own interest. Suppose, for instance, an investment trust were established by the railroad labor organizations and their banks to buy common stock of the railroads. This would furnish a safe investment for the individual; at the same time his organization, by choosing the manager of the trust, could mobilize the voting power of the shares held in such a way as to secure a real voice in railroad directorships. A machinery of this kind would not be open to the objections of ordinary employee stockholdings fostered by the company.

To summarize: The question is first, whether the function of the owner, as in traditional theory, has not lost most of the reality which it may have had in the past; and second, whether it is possible and desirable to restore that function or develop new motives and institutions more suitable to the problems of modern industry. If the latter is the case, my opinion is that the way to a practicable

industrial democracy and production for use rather than for profit becomes considerably clearer.

Discussion on Stock Ownership

Extent of Employee Stock Ownership

Following Mr. Soule's paper, the question was opened for general discussion. In answer to a question by Charles Ervin of New York as to the holdings of employees in corporations, Harry W. Laidler declared that, in 1902, the employee stockholders constituted 64 per cent. of the stockholders of the U. S. Steel Corporation. By 1924, while the number of employee stockholders had nearly doubled (to 50,020), they constituted only about 32 per cent. of the total number. One student has estimated that they owned in 1921 about 8 per cent. of the total stock of the company. The percentage of stock owned by employees of the American Telegraph & Telephone Company has been estimated to be about four-tenths of one per cent. Other estimat of employees' holdings are: In Swift & Company, 14 per cent.; in Du Pont De Nemours, about 12 per cent.; in Sears Roebuck, 13 per cent. and, in the International Harvester Company, about 3 per cent.; and according to Professor Carver, in the Philadelphia Rapid Transit Company, about one-fifth of the stocks. In all of the companies mentioned by Professor Carver in his "Economic Revolution," the proportion of stock owned by the employees was less than 15 per cent., except in one instance, where it was 20 per cent. [The Federal Trade Commission has since stated that "of the total stock of all companies reporting to that commission employees had 1.5% of the common and 1.9% of the preferred."]

De Leon Wants Complete Change of Ownership

Mr. Solon De Leon (New York): I think Mr. Soule ought to be thanked by this group for having so clearly

assembled the facts and given us the statement of the problem. He ought, however, to be roundly taken to task for his very timid solutions. As a statement of the problem, his address gives the picture very beautifully, but when it comes to telling us what to do about it, Mr. Soule seems to be suffering from professional delicacy.

We ought, he believes, to try to educate industrial managers. But how on earth we can educate an industrial manager to work against the interest of controlling stockholders in his company is a mystery to me. Mr. Soule thinks that, as we go on, it will be easier to educate these managers in social mindedness. My feeling is that, as the industrial situation develops, we will find more and more conflict between workers and employers. Fascist movements are spreading all through the world—through Italy and Czecho-Slovakia. We saw this movement in England in this last general strike. When it covers the world completely, it is going to be more difficult to get a man who has been an industrial manager to consider the interest of workers and not the interest of the controlling stockholders.

Mr. Soule indicated through a quotation which he didn't criticize that he thought we could supplant the profit motive. The method of supplanting the profit motive was to establish a fixed return. That seems to be keeping a profit motive under another form. To me it is just as much profit whether it is income on bonds at a stated rate per year or profit on stock at a non-speculative rate. In both cases you have a person receiving income from mere ownership as distinguished from work on the job. Even if Mr. Soule's picture were possible of achievement when, in each organization, each industry, the workers, through the investment trust, did own a larger and larger part of the shares, still, when that were carried out to its complete realization, we would have only a number of separately owned, disjointed, industrial units throughout the country. They might be socially owned in the sense

that the workers in each establishment would own or control that establishment's financial affairs, but each would be on its own feet. That sort of thing is not going to solve the industrial problem. What we need is a complete change of ownership throughout the entire nation, or, better still, throughout the entire world in which the units all work together—labor is allocated, raw material is allocated—and there is no profit motive whatever, all workers sharing the profits they produce.

Budenz on Effect of Recent Valuation Decisions

Mr. Louis Budenz of *Labor Age* (New York): It seems to me Mr. Soule's timidity is not entirely due to professional environment, but partly due to his audience. There is one thing that has struck me in recent years as a distinct quality of radicals and that is their conservatism. It seems to me that we fear to look through our problems and to face them in any way so far as vigorous action is concerned. We love formulas and not facts and we are very much taken up with certain words, certain foreign thinking. When, however, it comes to applying that philosophy to American conditions and making a real fight of it, we frequently fall down, so much so that we find men out in the Middle West not knowing at all about this philosophy or these various conflicting philosophies, who are doing more to destroy the profit system than are we radicals huddled together in New York.

Bringing it down to the present situation, it seems to me Mr. Soule is decidedly timid in his suggestions. For instance, in recommending that the railroad brotherhoods purchase blocks of stock on the railroad,—I can see very serious results from that. Do we imagine that the railroads to-day have ceased their plundering of the public? They are merely devising new and gentlemanly schemes, or more effective schemes. They are using the Interstate Commerce Commission as a smoke-screen behind which to

put out depredations that would make J. P. Morgan think he was pretty crude. They are doing that through this so-called reproduction theory of valuation which is a much greater method of robbery than any of the crude methods of the past. And the danger that I see in any such proposal as Mr. Soule has made is this, that the railroad brotherhoods, instead of vigorously fighting against these new methods which have taken billions of dollars away from the public and the workers, will, because they own stock in the railroads, rather be inclined to join with the railroad corporations in this sort of scheme. The tendency of many of the unions during the last five years has been too much in that direction, and particularly in the railroad unions themselves. It has been too much in the direction of indorsing the activities of the corporation, or, at least, not taking an aggressive and active participation in the fight against them.

It of course is true that the railroad unions have been fighting the grant of $10,000,000,000 to the railroads under this new theory of valuation. They have their counsel before the Interstate Commerce Commission, but all of us know before the case is decided that they are defeated, we are defeated and the $10,000,000,000 is already given to the railroad corporation. We know that from the history of the Interstate Commerce Commission.

It seems to me from these facts, that, rather than urge the railroad unions to form an investment fund to participate in the owning of stock of the corporations, we should tell them to carry on an aggressive and uncompromising campaign against "popular ownership" of stock in general.

Flanzer on Unions

Mr. Flanzer of New York stated that, in his opinion, the "newer defenses of capitalism" might at first succeed in inducing some unions to go into business, but not for long. The workers as in Passaic, in Great Britain,

etc., would continue to wage the class war and strike hard for their freedom.

Epstein on Extent of Welfare Work

MR. ABRAHAM EPSTEIN of the Pennsylvania Old Age Pension Commission (Harrisburg, Pennsylvania): I have just a few more remarks to add to what Mr. Soule has said. For the last two years I have been carrying on a rather extensive study of industrial welfare work in the United States, covering the subject Mr. Soule covered. I find that these defenses are not confined to employee stock ownership, but that they run all along the line. The last speaker who spoke about the class struggle would get more food for thought if he just looked more into the effects of this welfare work.

The Federal Trade Commission in its last report said that the total stock ownership by employees in the country represented one and one-half per cent. of the common stock of the country and two and one-half per cent. of the preferred stock. It is also estimated that something like six million workers in the United States own something like $500,000,000 worth of stock. However, there are no reliable figures on this subject.

There are several ways in which employers are trying to organize their defenses. I will just mention a few more to add to what Mr. Soule has so well pointed out. One defense is group insurance. This development is merely a scheme whereby the employer insures the worker, so when he dies the widow will get a certain amount of money, usually from $500 to $1,000. 1912 was the first year in which such a policy was written. The system of group insurance did not develop rapidly for the first five years, but to-day there is over $4,000,000,000 worth of group insurance outstanding in the United States. Something like three to four million workers are now covered by group insurance.

They have not confined themselves to that only. Up to 1900 there were only four companies in the United States that had old age pension systems. To-day perhaps four hundred companies have elaborate pension systems. Most of these have developed since 1915 or 1916. They have all been recent creations.

Another interesting development has occurred in the case of mutual benefit associations. There used to be a time when workers would not want the employer to contribute to the relief department. To-day there are a good many concerns in which the mutual benefit associations are practically supported entirely by the employers while the employees make practically no contributions.

Besides that, the employers have developed a remarkable system of saving plans. I found one concern out of fifteen hundred companies I studied that compelled workers to save a certain amount of their wages. The employee cannot hold a job unless he saves 10 per cent. of his wages every month. He must also show the company the nature of these savings and secure the approval of the board.

Why if you were to examine the range of welfare work in this country you would be amazed to find the various schemes that have been adopted, ranging from concerts at noontime and dancing, up to country clubs. I found one concern that had established a tailor shop and a jewelry shop as a part of its welfare work, so that the workers could buy better goods.

I find also that in the industries where industrial welfare work has developed, strikes have diminished. We think of the Passaic strike and the miners' strike. You will be interested to know that these are the very industries in the United States—the textile industry and the mining region —where welfare work has not developed at all.

I am not surprised that Mr. Soule did not present any more radical or any more amazing solutions. I don't believe that any one yet has been able, or is able really to suggest any definite solution to this problem. It is

primarily the business of the trade unions. I do not believe the trade unions have yet realized the tremendous significance of the whole process of capitalistic defenses. What the trade unions have been doing as far as I can see has been imitating the things the employers have done which they cannot do, because, to my mind, the employers can beat them to it.

I just want to bring these few other points before you in connection with this discussion. Newer defenses of capitalism are running along at a tremendous rate and include almost every phase of the working man's life. Something very constructive and thorough has to be suggested before we can find any solution to the problem.

MRS. ELISH (New York): I should like to ask Mr. Soule whether there can be peace between the working class and the capitalistic class and if so, how is it that a man who does not apply his finger to any industry gets all the life and vitality out of it?

MR. SOULE: There is no question whatever that the capitalist and the wage earner have interests which are opposed to each other. They also have some interests in common. But you will remember I made a distinction between management and ownership. If we separate the management from the owner, cross out the owner altogether, it is possible for the worker to make peace with the management.

Maurer Sees Changed Psychology Among Workers

MR. JAMES H. MAURER, President of the Pennsylvania Federation of Labor (Reading, Pennsylvania): I think George Soule did a very good job, even if it wasn't finished exactly the way some of us wanted it to be. But I think I understand why he left the job rather unfinished. If he had finished it, there would have been no discussion. But

I think there is a better reason than that. Some of us who have been pretty radical in our time are losing heart with the masses who don't seem to care to be radical. They would rather have it dished up to them in a sweet sort of no account form with which they can all agree and say it is all right. But if it is radical they get a little bit scared of it.

Now much has been said about the labor movement and welfare work—profit sharing, profit stockholding, etc., on the part of the workers in industry. The welfare work, as our friend Epstein has pointed out, is making headway among the workers to this extent. A worker ordinarily asks the following questions about a labor union: What does it give me? What do I get out of it? And along comes the employer and decides that he is going to do more than the labor union can do. The labor union generally talks hours and wages. The employer comes along and says, I will pay you the wages and since we have the hours anyhow, I stand by the hours. Then he does what the union cannot do. He says, I will give you a policy for life insurance, health insurance, old age insurance. And he puts up community centers, golf links, lawn tennis, base-ball, music, dancing, and all the things the unions cannot hope to give. And what is the result? The employers even go into the banking business as Mr. Epstein pointed out, insisting that the workers save money and after they see a certain amount of deposits on hand, they then unload a little of their stock and take that away from them again. A very clever arrangement. But the effect it has is this: A man comes home and shows his wife what he has got, this security against sickness, compensation, protection against accident, death and old age. We might demonstrate that old age and other group insurances cannot hold out, but the worker doesn't know that. He goes home and shows the policies to his wife. She feels secured. The family feels secured. The fear of sickness and death in the family, the fear of old age, is removed somewhat and

that man becomes a more subject slave to that employer than he ever would have been under any other condition.

The young folks get their amusements—dancing, playing, singing, their golf and lawn tennis—and they commence to imitate and do the things that in the past only the rich or the employers could do. It changes their entire psychology.

There is another factor in the industrial situation. Skilled men and women are no longer required as they were in industry. There are some skilled trades still, but very few. The average among us are merely laborers, as it were. We go into a shop and get a job on a machine which pays just a little better than laboring. And if we learn to manipulate that machine by saving a minute here and a second there, and speeding up a little faster, we can finally work our wages up to perhaps double what we could earn as common laborers. Then we are slaves to that machine. We know full well that if we lose that position which we now consider skilled, we have to go back to the old unskilled trade. But it is not a question of skill, it is simply a case of adapting ourselves to the machine and, therefore, that again takes all the independence and fight out of the operator of such a machine. That is another angle of the whole subject.

Then we have the labor movement struggling for a hold to try to bring order out of this chaotic condition in industry. Some say then, well, let's own it. Mr. Soule has so aptly pointed out that the stockholders do not have any voice in the management, and perhaps it is just as well so. If they did they would know so little about the other end of it that they wouldn't be able to vote intelligently even though they had a vote. My experience has been that stockholders have little to do any more in management. It is being denied to them. But it is a fact that the big banking houses are the real owners to-day of modern industry. They are the men who dictate the policies, much more so than the managers, contrary to what Mr. Soule seems to

think. We know in the coal strike no matter what the coal operators think about settlement, they have no voice in it until the bankers tell them they can settle. Until that time, there is no settlement in the coal strike.

I can't see any other remedy to the present situation but the one I have believed in for these many years. I believe, as some one over here has said, that capitalism must run its course. Capitalism is not now beyond mending as we used to say twenty-five years ago, on the soap box. "It can't stand another patch!" You remember that talk. It used to go good. We were going to have the coöperative commonwealth some twenty years ago ushered in on a silver platter. We have found since then that capitalism will stand a good bit of patching and more patching. And don't misunderstand me, perhaps it is better so.

I don't believe that we are fit to take over industry until we can demonstrate that we will be able to do better with it than the ones who now control it have done. And until that time comes, we had better let that crowd have it. I would rather cuss that bunch than cuss my own bunch.

But I can see no other remedy but that we have to pave the way by educating ourselves, so that when the crash comes, and it is going to come, we will have the intelligence to take over the industry and operate it for use and not for profit.

Capitalistic Defenses Will Not Work—Nearing

Dr. Scott Nearing (New York): Mr. Soule has given us some very interesting facts. I should like to examine some of the implications that arise out of those facts.

No one can deny that the employing class in the United States is spending a great deal of energy in putting up defenses. I conclude from this that the employing class feels its position to be weak. If it did not feel its position to be weak, it would not waste time putting up

these elaborate defenses. That, of course, is reasoning by prima facie appearances. I want to follow out that thought and show you why the position of the employing class is weak. In other words, I want to show you why in my judgment it is justified in putting up its defenses.

We have one vivid illustration of the situation now confronting the American workers. I refer to the case of Germany. Twenty years ago the German workers were insured and protected and housed and educated and cared for and guaranteed, not as completely as the American workers to-day, because the German ruling class didn't have the surplus to do it, but the analogy is reasonably accurate. The German ruling class put up these same defenses. The German workers believed in the defenses, just as the American ruling class is putting up defenses in which the American workers believe. Well, it took ten years to lay those defenses flat and reduce the German working class to beggary, defenseless, not only the slaves of their own employers, but the slaves of France and Britain and the United States as well.

Now it can be argued and reasonably, that this illustration is not a fair parallel because in the imperial struggle Germany was whipped and the United States has come out on top. Likewise, the experience of the British ruling class and the British working class in the last thirty years can be ruled out as merely an analogy, because again in the imperial struggle the British have been defeated and the United States economically has come out on top. So I dismiss these two illustrations and proceed with the argument which I wish to advance.

There are two objectives behind the illustrations which Mr. Soule has given us, first, to protect and guarantee the returns on investments, and second, to keep the worker quiet. I wish to examine those two objectives. First, will it be possible through these defenses to guarantee returns on investment? I answer the question in the negative, first, because the multiplication of investment is rapidly outrun-

ning the opportunity to earn returns on that investment. In the United States at the moment, to be sure, through various local advantages, we are able to pay our interest and our dividends on a very rapidly increasing volume of physical capital wealth, machines, railroads, etc. But in Europe, in Britain, in Belgium, in Germany, in Austria, in Poland, in all of these countries they have machines on which they cannot pay interest and dividends and they have those machines for very obvious reasons. They are unable to pay interest and dividends on those machines for very obvious reasons, that they cannot find a market for the products of the machines. As the volume of investment increases—and it is increasing in the United States very fast; I needn't go into that; the facts are well enough known—it becomes more and more a matter of pressing necessity to find a market in which they can dispose of the goods produced by the machines and thus pay interest and dividends on the investments in the machines. Europe has already reached a point where this is no longer possible and in my judgment the United States will reach a point in the not very distant future where the same impossiblity will be met. In other words, just as Britain, since 1897 or 1898, for some thirty years, has faced an intermittent depression, relieved only by the World War of 1914, so I believe the United States will face a chronic depression which will be relieved only by those outbursts of insanity in which we burn wealth and reproduce it and then call it prosperity.

That is the first point I wish to make in connection with this heading—can capitalism through these defenses maintain returns on its investment?

The second point I wish to make has to do with a world situation in which the United States finds itself at the present time. Since 1915 the United States has been pouring wealth into Europe. The bankers estimate that in the last six years we have poured in about eight hundred million a year. Had it not been for this defense of European capitalism the Hungarian revolution would have succeeded;

the Italian revolution might possibly have succeeded; the German revolution might have succeeded and there might have been revolutionary movements in other countries.

In other words, the bankers of the United States in the last ten or twelve years, by throwing in vast sums of wealth have been able temporarily to subsidize European capitalism and stem the tide of revolution. We are not only the most conservative of the countries of the world, but employers of conservatives to keep their people conservative. We have been the center of wealth and surplus and therefore the center of power. Will the United States succeed in keeping European capitalists by putting in capital wealth? I don't know the answer to that question any better than the rest of you do. We have recently made a loan to Mussolini. We have put across the Dawes plan in Germany. We have put credit behind the British stabilization of the pound sterling. Nevertheless, the French franc and the Belgium franc are on the slide and Mr. Briand with his tenth cabinet will not stop it. If the French franc and the Belgian franc go, the Italian lira will probably go in sympathy. If that happens, the stabilization of capitalism in Europe not only has not been completed, but Europe is on the brink of universal capitalist catastrophe. If that catastrophe takes place, the jig is up in the United States.

When the capitalist system in Europe broke in 1917 with the Russian revolution, the capitalist's jig was up and from that time forward it has been merely a question of events until Germany, Austria, Poland, France and the rest of industrial central Europe go the same way. That is a prophetic way of putting it, and the other was an analytical way of putting it.

I haven't any more time to follow out this line of thought. My third point under this heading was that even if capitalism could be established in Europe, it cannot be established in Asia and Africa. In other words, the colonial revolts have become a matter of major world politics

and they will probably increase for various reasons rather than diminish in the immediate future. In 1919 they talked about stabilizing capital when business was as usual; in 1926 capital is more stable than in 1919 and business less usual than it was in 1919. I simply want to present that point of view.

All of those questions have to do with the capitalist system of the world. Now the fourth point that I want to call to your attention is the ability of the capitalistic class in the United States to continue to enlarge the home market in the way that they have enlarged it during the last five years, primarily by building, and making automobiles. We have had some talk during this last year as to how long the bubble would last before it burst. I haven't any idea of when, but when the saturation point is reached in automobile production and building production, and when the saturation point is reached in selling automobiles, houses, radio sets, furniture, etc. on a dollar down and a dollar a week basis, when that saturation point is reached, the limit of expansion of the home market will be reached and the capitalists will face what they faced again and again in the past, a period when the enlarged facilities of production have no market, and when, therefore, the potential returns on capital will fall off.

I believe, under this heading, that it will not be possible, through these defenses, for capitalism to continue to guarantee the returns on capital investment, looking at it from either a world point of view or a domestic point of view.

Now my second main heading was, will capitalism, through these defenses, be able to satisfy the workers in the United States? I have two reasons for answering that question in the negative. I have already given the first reason if you will just transfer my first four points to this first sub-heading under my second point—as the capitalists system fails in the world, unemployment develops in the United States. That is my first point.

My second point is as follows: The workers in the

United States cannot be reached with the same prosperity that we guarantee the owning class in the United States. In other words, the disparity between the two classes will remain a constant source of friction.

My third point is that only a small percentage of the workers can be reached, because the capitalists can't afford to reach all of the workers. In other words, there isn't enough margin to make all of the workers potential millionaires. They may make the railroad brotherhoods potential millionaires, the typothetæ and others, but there remains 85 per cent. of the total number of workers and working farmers who are not being reached by this so-called prosperity. And out of that great, unorganized, incoherent mass of workers in the United States to-day, without expression, without newspapers, without union organization, without any means of speaking its mind, something or other will come some time or other in the not distant future.

These recent strikes have given us an inkling of what that may be. I haven't any idea of what it is. I simply call your attention to the fact that these investments, stock ownership and the like aren't going to satisfy the masses of American workers.

I am not going to dignify Mr. Soule's remedies by mentioning them. I am not going to attempt to give a remedy for the situation. I have not tried to present a remedy and I am not interested to do so. I am interested to raise the question—will the facts regarding capitalists' defenses, presented by Mr. Soule, protect capitalism? I will answer that they will not. I have given my reasons. Do the capitalists know this? They do. That is why they are redoubling their efforts to hold back the water while they think there is still time.

Chairman Thomas: Before we close we ought to try to get two or three main points and see what agreement we may have and of course we owe Mr. Soule the courtesy of letting him reply at the end. I shall therefore recognize

two people who have been trying to get my attention for some time and then I shall ask you to speak to certain particular points.

Labor Banking and Insurance as a Means to Industrial Control

MR. HARRY WEINBERGER, attorney (New York): I just want to throw out a few brick bats to start things going. The first brick bat I want to throw is at Scott Nearing. When Mr. Scott Nearing started out on this proposition and pointed out that Germany failed, I wanted to say to him that Germany did not fail for the reason he gave, but because of the World War and the destruction of everything Germany tried to do. By the particular plasters of old age pensions, better housing, etc., they were getting a contented people and the proposition entirely in Germany and the proposition in America is that the wealth produced by the people should be distributed to all the people so that they can have all of the necessities and some of the comforts and some of the luxuries, and some leisure to develop themselves. So when he bases his entire proposition on the failure in Germany, I feel that he should reread Fred Howe and others who wrote on Germany before the war and how they were moving toward, not Utopia, but at least toward giving all of the people of Germany the necessities of life and some of the luxuries. And if they had gone on they probably would have gotten a good deal more.

On the problem Mr. Soule has presented to-day, I want to bring out a few things. I know that most of the speakers will agree that the proposition as I understand it is that nothing can be done with the mass of the workers of America as far as any radical remedy is concerned. It may be that we cannot get any radical remedies because of these particular plasters. The fact is at the present time radicalism in America is dead. If we have a lot of panics, a

great deal of unemployment, perhaps you will get radicalism or liberalism to come back. But taking things as they are, how far did George Soule give us a remedy? I don't want to go into world markets and world solution to the problem. It is just now a particular problem in America. The thing I wanted to point out is that, if Mr. Soule is right that we are getting industry where management is absolutely disassociated from ownership, where, as Mr. Maurer pointed out, the coal strike wasn't a matter between the coal operators and the coal miners, but was a matter of the bankers, we do face a problem. Can we not in some way control industry? Mr. Soule pointed out that small minorities controlled industries. Is there any way that we can capture (if you want to use the word) industry by owning stock? And I am not talking for the moment on the little petty proposition that if I am an employer and I allow my employees to buy stock, of course I will control the management and majority because I have my eye on you and you have your eye on me. I am talking on the bigger proposition of bigger industry and the outside world, of the working class as a working class capturing a particular industry.

Now if we take the labor banks, if we take the proposition of insurance, we find that banks and insurance companies are the particular institutions which get the largest amount of immediate cash all the time. It isn't necessary to have the money in order to capture an industry or buy a corporation. The question is whether you know where to go and get it. Let some one loan it to you. The labor banks have learned the lesson that by starting the bank and getting a charter they can get at the same time millions of dollars of deposits. Now, take the insurance companies: they get with your dollars and mine millions of dollars of cash every single week. They control industry. Because the more prosperous an industry is, the wider it expands, the more capital it has to borrow, and finally it is the

insurance companies and the banks that have to loan the capital and dictate the policy.

Personally I believe if, in a concerted way, we start after certain industries where the working class is absolutely downtrodden, get the banks and the insurance companies controlled by ourselves to work into those industries and get a strong minority, not a majority, we can capture the industry as far as the management is concerned.

And we can go out and hire all the brains we want in the world to run any industry. If Mr. Soule is right that more and more in industry management and stock ownership are separated and that a minority is more and more controlling, if Mr. Maurer is right that it is the banks and the insurance companies that are the last word of control, my belief is that we should go more and more into the insurance business and labor banking, but with a preconceived idea of what we are trying to do. We do not want to go in with the idea of a small group making money in labor banks or insurance, but with the idea of capturing industry through those particular instrumentalities. That is the way the present capitalistic system has gotten control of practically every industry in the country.

CHAIRMAN THOMAS: This leads naturally to the subject we take up to-morrow on trade union capitalism.

Defenses are Aimed at Unionization: And are Effective

MR. ABRAHAM BECKERMAN (Manager, Joint Board, Amalgamated Clothing Workers, New York): I think there has been a good deal of loose thinking to-night. Perhaps I will contribute to some of the loose thinking. There has been a lot of loose talk, and some of it almighty positive, I think, as to what will be the effect of these latest defenses of capitalism.

It is very difficult to follow the reading of an academic paper and get exactly the drift of the thing and what is

proposed by the one who submits the paper. What are these latest defenses of capitalism mentioned by the reader of the paper supposed to defend capitalism against? A new order? Not at all. These defenses are merely defenses against unionization and nothing else. No capitalist I ever met is afraid of socialism or any new order. If he has a unionized shop, he would like to stultify the union as much as possible. If he hasn't a union, he tries his best not to have one.

These defenses are not against an order of society. The employers are not class-conscious enough to worry about any new order of society. They are interested in their own particular business, to make as much as they can, and to keep the union out. Nearing says, will these new defenses satisfy the workers? No, says Nearing. I know better and every labor organizer knows better. Will they prevent unionization? Sometimes, yes; sometimes, no. It depends on how cleverly employers use them, and how much of a grip they get on the psychology of the working man. Stock-holding and the other things that were mentioned by one of the speakers, insurance pensions and everything else, unquestionably have the effect of keeping people from joining unions and make the job of the labor organizer much more difficult. Will they satisfy them permanently? I don't know the meaning of the word permanently. They often do satisfy the worker and very often and usually make it almost impossible to get him into a union.

What are you going to do about it? Devise some scheme? Your schemes aren't worth the paper they are written on, or the attention given to them. Are you going to try and buy stock in wholesale lots by some wonderful corporation making a whole lot, putting it together and buying here and there? You are almost sure to break your neck. You are going out of your own field and going into the other fellow's field which he knows more about than you will ever know. By the time you are through

with your scheme they will have so changed the original scheme that your scheme will be worth nothing.

What are you supposed to do?

Wherever you find the employers have these schemes you will try to explain to the people that the schemes are not worth anything. The workers may own three stocks that will bring them in $12 a year and if they work real hard they will make $15 a year. But what is $15 a year as compared to the fellow who belongs to the union? That is your business. However, when you get into the other fellow's business, you get left. You can prove that by sound economics and common sense.

How about the union? The union in America has a more difficult task to organize and survive than the union elsewhere, because it is up against a tougher opposition. American capital is highly organized and very wealthy, very efficient, with a powerful state back of it which goes the limit, as we see over and over again, and the job of the union is hard, much harder than anywhere else. You are up against an element of thugs, of police and all kinds of elements that you don't have to contend with to such an extent in other countries. Then when you have organized an industry, the country is so almighty large, and living conditions are so different from one end of the country to another, that you find that, after you have organized in one section of the industry, the industry appears in another section where it is almost impossible to organize.

For instance, in my own industry, the clothing industry, you will find, after you have organized the Palm Beach industry and the industry throughout New York, it springs up somewhere in Carolina and Texas, and all labor leaders know the difficulties of organizing in the South with the negro help.

The B. & O. Railroad, in order to get a settlement, negotiated a union-management-agreement, and are trying to show that, with a union and efficiency, they can do better

than non-unionism is doing in the Pennsylvania Railroad.

Some people say—The idea of a union working together with the railroad for efficiency! How conservative! Let me say again in our own shops in New York where we have quite a large union, we make it a practice to have the shops operate on an efficient basis. The union, in order to exist, must be conservative in many respects many times. They have to coöperate for efficiency. It is easy for one to say they should or shouldn't do it but those in the union know that, unless they work along these lines very often they may be left with a fine radical union and with all of their people starving in the streets and the work being done elsewhere. That is unfortunate but the size of the country, the peculiar nature of the country and the different living conditions make these things difficult.

What are you going to do about this proposition? Buy shares? Buy in a larger way and control the rest of the industry? Buy nothing! Wherever the employers get them to buy, see if you can get them to sell. Wherever the bosses convince the workers that this will make them part of the business, show them it is a sop to separate them from unionization. Show them they are getting very little out of this thing. I have a sneaky feeling that most of the schemes will amount to little, that, by the time we have finally developed them to the highest point, things will have so changed with general schemes that our schemes will be fit for the waste paper basket.

Chairman Thomas: I have been interested that in so far as I could follow the discussion to-night, no one has risen up to say that these schemes really amounted to "popular ownership." Some of you who were here a year ago will remember that Arthur Williams of the New York Edison Company told us in all seriousness that you had popular ownership through just such schemes as this. No one has repeated that to-night. I trust no one has been intimidated who wanted to say it.

Ordinarily these things which Mr. Soule has described to us are recommended as the equivalent of "popuar ownership." Is there any one who has anything to say on that?

In Defense of "Popular Ownership"

MR. BENJAMIN JAVITZ, attorney (New York): My belief is that, in so far as the two propositions stated by Mr. Soule are concerned, both ought to be defended by us as socialists.

First, when he shows that ownership of industry is making greater strides in the hands of the workers, that ought to be encouraged by socialists. When he points out that there is a new motive which is displacing the profit motive, that ought to be encouraged.

I start with probably this unpopular premise that capitalism ought to be defended until every human being can be a capitalist. From what Mr. Nearing says, I take it he means that if the capital was divided in the United States, only 15 per cent. of the population could be classed as capitalists and 85 per cent. would be in the position of poor men. I say that the capitalist system in this country, before you can expect a coöperative commonwealth, must increase six times and you don't know how to do it. Mr. Maurer says that it would be a crime, that he wouldn't want us—you and me—to be operators of the system of society under which we live, because we don't know enough of management; we don't know enough about how to run the system which makes your life and my life possible on the scale which we now have it. Mr. Maurer doesn't go into any explanation and I don't expect to have the time to do it myself, as to why it is unfortunate, as to why the laboring man is a slave who now enjoys a great many of the things that you and I, during the years, have hoped we could enjoy and which was only a part of the life of the capitalist.

As I said, my theme is probably unpopular, but I don't know what you want and you don't know how to get it. You couldn't run the system of society that you have to-day and when Mr. Scott Nearing says with almost a gleeful tone in his voice that there would have been, if the capitalists of the United States had not come to the support of the governments or economic structures in certain countries in Europe, a revolution, I say it is not something to be gleeful about. It would be a tragedy until such time as we know enough about how to operate the system of society under which we wish to live.

Chairman Thomas: I am going to suggest that what Mr. Javitz has told us is less an argument that we have the equivalent of "popular ownership" under the scheme described than it is an argument that it is a necessary discipline for us for a time. There hasn't been much said in favor of the schemes outlined by Mr. Soule as genuine "popular ownership." There has been considerable said about them as means of keeping workers in the more fortunate trades quiet and making organization hard. I should venture to say there has been something like general agreement on that. As to what we shall do, there has been a certain vagueness. Mr. Soule's modest and tentative suggestions have been considerably criticized and of them he will speak.

Scott Nearing has done a real service surely in linking this up with the whole world movement. It has been suggested that whatever else must be done, we have got to push ahead unionization and we have to explain to the unions the facts as we see them about these attempts to lure the workers off by so-called plans of "popular ownership." On that I should suggest that there was something like substantial agreement.

Mr. DeLeon: Two speakers have made the point that it would be a crime if the workers got control of industry.

I think that argument was made years ago. It is like the old story:

Mother, may I go out to swim?
Yes, my darling daughter.
Hang your clothes on a hickory limb,
But don't go near the water.

It seems to me if we are to wait until we can prove we can run industry like the capitalists, it is hard to know how long we will have to wait. The job to do, it seems to me, is to build up and get control. Then we will know how to run it.

Mr. Soule Sums Up

MR. SOULE: You have had a long time to discuss my speech. I am going to try to discuss it very shortly.

In the first place, as to my timidity. My timidity was a device to get discussion, to state a point of view which I know is not held by the majority of the audience in front of me, which is something I invariably do. In the second place, when I am making suggestions as to solutions for a problem that is raised I always attempt to state them in a tentative way so as to elicit conclusions on the part of the audience. That may explain the method of attack.

Now as to what you have done with this statement of the problem and the tentative solutions advanced. It seems to me that you have not done what I expected, or what I had hoped. In the first place this might have happened: You might have said, the analysis shows, as any such analysis would, that the defense of capitalism advanced by its most logical defenders no longer has any force, which is that the hope of profit on the part of the owners is the driving motive of efficiency in industry. That cannot be said to have much force under present conditions. That might have been a conclusion to some of the more radical

people in the audience. But apparently it wasn't drawn. And we have to remember that, in spite of all our courage in stating positive conclusions and making prophecies, there are still a few people in the United States who are neither socialists nor communists and many of them are in the labor movement itself and consequently a conclusion of that sort is perhaps worth having.

When I asked for a consideration of the question of what we shall substitute as a driving motive of industry for the profit motive, I opened up a field which would be very fertile for radical thought if it were applied to it.

The first tentative suggestion that there is a motive to do well in management which is not inspired by the desire for profits is, and must be, close to the heart of any radical philosophy which argues that a system can operate and supply the needs of society without the profit motive. And if we could show that that was true, we would have laid one of the foundation stones for a radical philosophy.

In the second place, the suggestion that, in so far as the owners are animated by a motive different from the profit motive, they have to be controlled in the public interest, is also a fertile field for further thought, I think.

How shall we control them in the public interest? Supposing, as Mr. Maurer said, we had the social revolution to-morrow. What would we do with it? And that to me is a very interesting speculation. I feel that it is extremely worth while for us to consider the standards that can be erected for management, the kinds of control that can be exercised by governmental bodies or by political bodies or any other kind of bodies, and particularly the kind of control that can be exercised by organized labor, controls not directed merely against an opponent, because we hope some time the opponent will disappear, but toward the more efficient operation of industry for the service of society.

I might go on and speak of many of the minor points that have been brought up but I can only hit the high

spots in the short time that is left. I will say this thing further, however, that we to-night apparently discussed the entire theme of the conference, whereas the subject matter for discussion was to be, "Changing Relationships Between Property Ownership and Control." But we will have a chance, therefore, in some of the future meetings to go over more carefully some of the other matters which were brought up.

On the basis of Mr. Soule's paper, the following resolution was afterwards submitted to the Conference and passed:

"Whereas, One of the fundamental justifications of profit and private enterprise has been that the owner of a business, who risks loss and seeks profit, is responsible for management, and thus is led to seek industrial expansion and efficient operation, with their benefits to society, and

"Whereas, The large corporation, combined with widespread stock ownership, holding companies and indirect investment of various kinds has separated owners from control over management, and

"Whereas, It is neither possible nor desirable to restore control over management to millions of absentee owners, and the traditional function of the old profit incentive is thus no longer to be relied upon, be it

"Resolved, That it is of great importance to recognize this fact in economic theory, popular discussion and public policy, and to inquire what other incentives can or do influence management."

SECTION II. TRADE UNIONS ENTER BUSINESS

THE Saturday morning session was given over to the problem of "Trade Unions in Business." The discussion centered primarily around labor banking. J. S. Potofsky, Vice President of the Amalgamated, led the discussion. His address was as follows:

Potofsky on Labor Banking

MR. POTOFSKY: Without much ado and theoretical discussions, rather quietly and without assuming much, the trade unions of this country have entered the field of business. In only six years trade unions of all descriptions have invaded the banking field. They are promoting cooperative insurance, coöperative home building, and are engaged in other business enterprises. We find that a radical union like the Amalgamated, for instance, has organized eight different corporations to handle its business activities and is planning a ninth one.

A list of the Amalgamated corporations follows:

1. THE AMALGAMATED CENTRE, organized in 1919 for the purpose of holding real estate in New York City.
2. A C W CREDIT UNION, organized in April, 1920, for the purpose of extending loans to members, mutual assistance, etc.
3. THE AMALGAMATED TRUST & SAVINGS BANK OF CHICAGO, chartered April 13, 1922, for the purpose of rendering banking service.

4. The Russian American Industrial Corporation, organized June 2, 1922, to assist in the rehabilitation of Russian industry and for transmission of funds to Russia.
5. The Amalgamated Bank of New York, chartered on February 6, 1923, for the purpose of banking.
6. A C W Corporation, organized April 23, 1924, for the purpose of coöperative buying of coal, ice, and housing.
7. The Paramount Holding Corporation, organized September 25, 1925, for the purpose of holding real estate and leases owned by the Amalgamated.
8. Amalgamated Investors, Inc., organized November 24, 1925, for the purpose of coöperative investment.

Similarly, the Brotherhood of Locomotive Engineers, a conservative union, now owns 14 banks, 8 investment companies, an insurance company, a printing plant, sky-scrapers in Cleveland and New York, and a tract of 31,000 acres of land in Florida.

As if overnight, labor has turned capitalist in what appears to be a unique and distinctly American movement. The most extensive experience in the so-called "labor capitalism" is in the field of banking. Let us, then, examine the purposes, scope, policies, and experiences of this branch of the movement. The general background holds good for the other businesses.

Purpose and Philosophy

Sidney Hillman, one of the fathers of the movement in this country, in a speech before the Academy of Political Science, summarizes its purpose and philosophy thus: "Labor's interest in banking is a product of the post-war

attitude of organized labor toward the general problems of industry and of political and social life. . . . Organized labor to-day," Mr. Hillman says, "is looking beyond the formula of a fair day's pay for a fair day's work. It exhibits a growing tendency to become a constructive and positive force. It is looking for a way to use its economic power to its own advantage. Labor seeks to assume responsibility for management, to obtain greater security for its members, to extend its sphere of influence in all directions and to receive whatever benefits may come from accepting these responsibilities. This movement," he further tells us, "puts large organizations in touch with industry; aims at the acquisition of the knowledge of management by these large groups. It means placing a larger group of people in direct contact with the problems of our complicated social and economic life. It means the introduction of democracy into industry." [1]

Warren Stone, who was first to introduce the limited dividend idea as well as the idea of sharing profits with depositors, thinks that in ten years the American working men, by saving and carefully investing their savings, can collectively become one of the *dominant financial powers of the world*.[2] This may seem a bit over-enthusiastic. A comparison of the total resources of all labor banks with the resources of the National City Bank, for instance, will disclose the fact that so far labor banks are not a large factor in the financial world. Who, however, knows what the future will tell? The possibilities are vast. All the banks throughout the country have on deposit, exclusive of commercial funds, over ten billion dollars. A substantial portion of these savings are workingmen's money. When the working people come to the realization of the necessity of marshaling their savings through the channels of labor banks, Warren Stone may prove to be right. And that

[1] Address before the Academy of Political Science, New York, March 9, 1925.

[2] Labor's Chain of Banks, in *World's Work,* November, 1924.

will be nothing short of a transfer of financial power from Wall Street to labor.

Scope

The labor banks have spread throughout the country very rapidly. There are to-day 35 labor banks located in 31 cities, 19 states, and the District of Columbia. A number of new banks are being planned or are in process of organization. Nineteen of the 35 banks have been organized by the Railroad Unions (14 of the 19 by the Brotherhood of Locomotive Engineers). The other 16 have been established by the Needle Trade Unions, printers, miners, machinists, and various A. F. of L. groups, both local and state. All types of unions have joined in craft and industrial unions, conservative and radical—all are on the band wagon of "labor capitalism." All but one are operating successfully. The one exception has been the Producers and Consumers Bank in Philadelphia which was not chartered by the state and was not affiliated with the Federal Reserve. That bank was recently taken over by the Mitten interests in Philadelphia.

Resources

The largest of the labor banks was one of the first to be organized, the Brotherhood of Locomotive Engineers' Cooperative National Bank of Cleveland, with resources of over 28 million dollars. The resources of the other banks range from a half million to 17 million dollars. The combined resources of all the 35 banks to April 12th is $123,967,390. The capital and surplus and profits are $12,619,889. The increase in business for the nine months preceding April 12th was nearly $24,000,000, an average gain at the rate of thirty-two million dollars a year. Almost every one of these banks shows a steady and progressive increase in deposits.

Special Services

The avowed purpose of labor banks is service. All labor banks stress this point. The labor bank endeavors to render all the banking services the business banks render and, in addition, has developed special services.

Small Loans

The Amalgamated Banks, for instance, have built up a Small Loan Service, which keeps needy borrowers away from the loan shark and installment dealers who ordinarily charge from 20 per cent to 100 per cent. Through this service the Amalgamated Banks have enabled thousands to go through temporary periods of unemployment, sickness, or any other needs without much red tape and at a low rate of interest. Loans in this department are made on character endorsement. Two endorsements are ordinarily required. The borrower is encouraged to open a savings account and deposit in that account weekly payments until the sum borrowed is accumulated; 4 per cent. is paid to the borrower on his savings account, thus further reducing the cost of his loan. The Amalgamated Bank of New York alone has handled about 3000 such loans from $50 to $300 from the time this department was opened in April, 1924.

Remittances

Another special service of the Amalgamated Banks is the transmission of American dollars to Russia and other countries, a service which has helped build up the reputation of the Amalgamated Banks. Through this service the Amalgamated enabled tens of thousands of members and others to help their relatives and friends abroad, effectively and on convenient terms.

Prior to the entry of the Amalgamated in this field, Russia was closed for remittances. There was no agency

through which American citizens and residents could safely send money to their friends and relatives. The Amalgamated made it possible. Under its plan no losses are possible, for there is no speculation in foreign currencies. The Amalgamated ships actual dollars. No deductions are made on the other side and cost of transfer is nominal. When a business of this kind is organized for service and not for profit the social aspect is obvious. Since the inauguration of this service more than twenty million dollars have been sent to various countries in Europe. It is interesting to point out that the organization of this service was made possible through the Russian American Industrial Corporation which had contracts with a Russian bank and through which organization the Amalgamated demonstrated to the banking department that transfers can be made without loss or speculation. Incidentally, the transfer of these funds had beneficial results on the rehabilitation of the countries to which this money was sent.

Still another service is that of coöperative housing. The Amalgamated Bank does not directly finance the coöperative building project. Indirectly, however, it is of immeasurable assistance. Through the bank an expert advisory board composed of builders and realtors has been organized. These men give their time freely. The officers of the bank are likewise giving the project much attention. The bank is assisting prospective tenants with small loans.

A still further type of service developed by the Brotherhood Banks is the investment of funds. This is best described by the late Warren Stone in an article in *World's Work*. President Stone declared: "Labor banks are tapping a big investment field. The Brotherhood is paying into the homes of deceased and disabled locomotive engineers three million dollars a year. This goes for the most part into the hands of inexperienced women, who have been the prey of get-rich-quick swindlers. It is safe to say that nine-tenths of this money has been wasted within a

year. We have succeeded in changing this. The expansion of the Brotherhood in the field of investment companies may be directly ascribed to this special service which the Brotherhood is anxious to render to its members and friends.

Coöperation

While not pure coöperatives on the one-share, one-vote principle, all the labor banks are distinctly coöperative, or at least have been developing certain coöperative features. The Brotherhood and the Amalgamated Banks limit the ownership of stock by individuals to from three to five shares. Dividends of most labor banks are limited to 10 per cent. and shares are widely distributed. The danger of hunting for high profits at the risk of security, as well as the incentive for private gain, are avoided by the selection of a high class personnel and by definite policies laid down by directors and the union. In a large number of banks, the majority of the shares are owned directly by unions. This is the case with the Brotherhoods, the Amalgamated, Telegraphers, Machinists' Unions, etc.

The coöperative outlook of labor banks is yet to be realized as the banks continue to grow and prosper. It will be incumbent upon the banks first to clear all their organization expenses, wipe out cost and equipment, and set up large reserves for possible contingencies and emergencies. They will then be able to consider the appropriation of funds for coöperative propaganda and coöperative ventures. They may also realize their much-desired expectation of sharing their profits with depositors. So far the Brotherhood Bank alone has shown itself to be able to do this. Given one or two more years of the kind of progress the Amalgamated banks have been making in the past, I am confident they, too, will be in a position to divide their surplus earnings with their depositors, thereby demonstrating definitely the coöperative intent of the labor banking movement.

Coöperative Investment

Another feature of special service on a coöperative basis developed by the Amalgamated has been the organization of a corporation recently formed known as the Amalgamated Investors, Inc. The purpose of this organization is to afford to the small investor the same protection and expert management of investment of funds which now only a very large investor or financial institution may enjoy. Ownership and control of this organization is vested in the Amalgamated Clothing Workers of America, but all of the earnings (except a very small management charge) belong to the holders of investment certificates, i.e., to investors. It operates like an investment trust described in Mr. Soule's speech, with this difference: First, that it is controlled by a labor organization; and second, that its profits are divided on a coöperative basis.

The management of the funds are in the hands of those who are responsible for the investments of the Amalgamated Bank. The policy of investment of the Amalgamated Investors, Incorporated, is the same as that of the Amalgamated Bank.

This coöperative investment trust was organized early this year. At the end of the first four months it was able to declare a 6 per cent. annual dividend and to add to surplus an amount almost twice as large as the dividend paid. Both the dividend and the surplus belong to the coöperators.

Education

The educational value of labor banking is immense. It stimulates interest in the labor and coöperative movements. It revolutionizes the psychology of the average person and prepares him for labor control. It gives labor a working familiarity with the technique of business. It projects itself into the social life of its members, and strengthens

the ties that keep the average workingman interested in the union and the labor movement. It builds up a string of labor institutions within a society based on another—often an anti-labor—principle. Cells of a new order, for service rather than profit, are built within the womb of the present order.

Safety

Labor banks regard the trust of funds in their care as sacred. The leadership of the unions in support of labor banks have not only the funds of their own organizations at stake, but their reputations. It is therefore reasonable to assume that they will exercise conservative methods, avoid speculation, and continue in the safe and sane way they have so far shown. Safety and security then is the prime motive in the investment of funds of labor banks.

Investment Policy

The policy of the Amalgamated Banks with respect to loans is conservative, safety being the basic consideration. It has organized an advisory board of business men of many years' experience who assist the officers in passing on commercial loans. The Amalgamated Bank has made every effort to avoid making loans for anti-social purposes and others that it considers non-essential. On the other hand, it has extended loans to credit unions, sound and well-functioning coöperatives and other institutions of a social character. The Amalgamated banks have made it a rule not to extend any loans to clothing manufacturers. This is done for the purpose of segregating the union from banking operations. In adopting such a policy the labor bank is introducing a new code of ethics into the banking business.

An interesting incident showing the usefulness of labor banks is told by Adolph Held, President of the Bank. It happened just last week. In New Brunswick, N. J., there

is an organization of some 1200 Czechoslovakians working in shops and factories in that vicinity. They have in their treasury a few thousand dollars. This organization was approached by some salesman to buy stock of a certain mortgage company. One of the members suggested that there was a labor bank in New York which should be consulted before the investment was actually made. So a committee was sent to the Amalgamated Bank of New York one afternoon, together with the salesman of the company. It developed that the company was capitalized for a half million dollars, but only $200,000 of it was paid in. It was recently organized and its assets were mostly in real estate. The matter was promptly examined by the Investment Department and it was pointed out to the committee that (1) while the money might be safe, it could not be withdrawn on short notice, and (2) it was not as sound an investment as some of the older mortgage guarantee companies. The committee decided not to invest in the enterprise.

This is the sort of advice that could have been received from any other private bank, but it is not impossible that a private bank would have an interest in giving the wrong advice. Furthermore, the chances are that the people would not have thought of consulting a private bank.

Dividends

The labor banks have been variously regarded in different quarters. Whatever view one takes, one thing is already certain. The movement is here to stay. It is safe and sound; it is entrenched; and it is successful. Out of the 35 banks, 28 of which have been organized in the last three years, five are already on a dividend-paying basis. This is conclusive proof of the success of the movement. It should be remembered, too, that the past two years have not been conducive to prosperity—the Coolidge boom to the contrary. There has been considerable unemployment. Busi-

ness in a number of industries has been slack. When under such circumstances most labor banks have not only increased their deposits, but have built up surpluses, set aside reserves, and in five cases declared dividends, the success of the movement in the future seems assured.

As to Dampening the Militancy of Trade Unions

It has often been assumed by some students of the labor movement that the revolutionary spirit of the unions who enter the field of labor banking will tend to become dampened. The premise for this assumption is largely the unavoidably business-like and conservative administration of the labor banks. There is little merit to this assumption, as may be proved in the case of the Amalgamated. Some of the most aggressive and costly strikes in its history were fought since the inauguration of the banks. If a union is genuinely radical and socially minded there is no reason why the additional strength that comes to it from ownership and control of banks should influence it to be otherwise. It is a matter largely of leadership and strategy. A leader who would subordinate the interests of the membership to the interests of a labor bank would eventually lead himself out of leadership.

Old Fears Allayed

The experience in the last few years also has allayed the fear in some quarters that labor banks will suffer heavily during strikes. The unions controlling banks have gone through strikes, internal squabbles, and yet their banks show steady growth.

Personnel

A number of the people associated with labor banks who would otherwise not be attracted by the labor movement

are to be found in these labor banks. They are a big asset to the labor movement and to the banking enterprises. Such men as are associated with the Amalgamated banks, as for instance, Mr. Held, Professor Macaulay, and Dr. Wolman, are in themselves a symbol of the conservative and efficient management both with respect to investments and general policy, and also of the social mindedness and coöperative spirit of the institution.

It is also interesting to note that the salaries paid to the employees of the labor banks are from 15 per cent. to 25 per cent. higher than those paid in private banks for similar services, and that the employees are organized in an effective labor union.

Effect on Private Banks

Labor banks have already been influential in getting a number of private banks to consider the calculation of interest rates more liberally. Prior to the coming of labor banks most banks figured interest semi-annually. Labor banks, though not a financial power by themselves, have influenced other banks, particularly savings institutions, to inaugurate a more liberal policy towards their depositors. The Brotherhood banks figure interest from date of deposit to date of withdrawal and compound it quarterly. The Amalgamated banks figure interest from the first of each month and compound it quarterly. Indirectly, then, labor banks have brought about a larger return to the depositors of other banks.

Difference Between a Labor Bank and a Private Bank

I have heard it asserted that there is no distinction between the labor bank and the privately owned bank. That is, of course, a fallacy. Though both operate under the same laws, though both are subject to examination by the state and federal authorities, there is a positive and clear

distinction between the two. First, there is the purpose itself, the coöperative intent, if nothing more, the limited dividend policy, and the wide distribution of shares, the organization for service instead of profit. In the case of the labor bank, the profits are merely the yardstick to denote the successful operation of the bank,—a mere by-product, as it were. The actual profit itself is used for the benefit of the many—the stockholders, the unions, and the depositors. Second, the spirit of democracy which animates the labor bank, the aim of penetrating into the mass of workers, as in the home building, the small loan service, and other features, is not found in the private bank. The very atmosphere, the accessibility of the officers, their democratic attitude—are all conducive to making the worker feel at home in his own institution.

Third, and finally, labor banks differ from private banks in the ever-growing consciousness of labor power and labor responsibility which adds, of course, to the bargaining power of the unions. This, in my judgment, is the most important of all, for it brings labor in closer contact with the rest of the community. The days when labor was satisfied with just bread and butter are gone. To-day labor justly requires leisure, beauty, culture, and things that it could not have unless it asserted itself by assuming power and responsibility. It is to the credit of the labor movement that it has made its approach to the problem of labor banking without Utopian dreams and scholastic formulæ. Its practical application has assured its success.

In Conclusion

It is difficult to predict the course of labor banking because it is still in an experimental stage. A great deal will depend upon the leadership and the policies that are adopted by the labor banks. Guided properly, we may look forward to a sound system of coöperation based on conservative management and inspired with an ideal that will

tend to bring about both confidence and inspiration of the large masses in labor control. In itself the movement is a great boon to labor power, an educational process for the diffusion of ideas for a better world. Already the success of labor banks has produced a favorable impression on liberal thinking people.

Labor has a right to look to the future with much hope. It has made stupendous progress. It has exhibited a social-mindedness that heretofore has been sadly lacking. Its interest in education, coöperative housing, insurance, and banking marks the beginning of a new chapter in American labor history. It is of great significance. It is proof of a new idealism and tendency that will root the unions in the everyday life of the community as no other tendency has so far done. It may prove to be the beginning of the march toward the new social order.

In the language of a poet, we may justly sing:

Plough and sow and sing, brothers,
Toil and fight and dream, brothers;
Seeds are ripened grain, brothers—
The harvest will gladden the earth!

Some Neglected Factors in Trade Union Capitalism

Mr. Benjamin Stolberg, writer, formerly assistant editor of the Locomotive Firemen's and Enginemen's Journal, was the next speaker. Mr. Stolberg spoke on "Some Neglected Factors in Trade Union Capitalism." His address, herewith somewhat elaborated, was as follows:

Mr. Stolberg: The New Unionism, like all such currently fashionable "new"-movements-for-old, supposedly stands for what the gentler liberal loves to call a new Way of Life. In this at once lofty yet realistic view American labor has seen the error of its old and tough tactics for a "full dinner pail" at less work and better

work rules and has become converted to an ever widening "participation" in the entire range of social culture. This "awakening" is evidenced in workers' education, for which the Workers' Education Bureau has recently accepted with broad tolerance $25,000 from the Carnegie Corporation; in such enterprises as the Workers' Health Bureau (as though the established private and public health agencies were for the classes and not the masses!); and in a good dozen other educational and social work activities of and for, though not by, labor. But labor's by all odds most prominent, important and financially most heavily interested participation in American civilization we find in its ever growing and multiplying profit seeking investments; and in its efforts for closer collaboration with the management in the shop. Since, by and large, at least on the part of the A. F. of L. unions, this collaboration takes the primary claims of management as subsidiary to ownership for granted, both types of activities—the second no less than the first—may be subsumed under the heading Trade Union Capitalism.

The Trend Not New

Technically speaking, this trade union capitalism is undoubtedly "new." Since 1920 it launched 35 labor banks and has heavily invested in two others. Their total capitalization exceeds $10,000,000, and their total deposits are over $100,000,000—mostly commercial accounts. American labor to-day also gone into real estate, Florida not excluded, into housing plans of several types, into commercial insurance and into business ventures. It shows a pious though somewhat euphemistic prediction for calling these enterprises "coöperative," though not one of them, technically, is coöperative, all of them being conventional corporations under varyingly liberal limitations.

The contractual trend between capital and labor also shows certain novelties since 1924. Notably in the railroad

shops the agreements between carriers and workers are so highly technological that the line of demarcation between protecting management for profit and protecting the job for the worker is almost indistinguishable. This difficulty in telling whether capital or labor is better safe-guarded, under the assumption of dividend priority, is known as Union-Management Co-operation.

All this is quite "new." But the important consideration is that it is not *significantly* new. It is confusing to call a development "new," with a certain revolutionary implication, when it is but a *novel* way to extend the old—the ancient "pure and simple" trade unionism of American labor. Now let us analyze what these words—"pure and simple"—meant all these forty years.

The Motive of Trade Union Capitalism

The important thing about the pristine "purity" of our skilled-craft-separatism lies in its innocence of labor solidarity. Its "simplicity" has always been relatively unimportant, bespeaking indeed nothing but the most effective method of keeping itself "pure" and undefiled of all class-consciousness. There was much to be said for the "pure" philosophy of having no class-consciousness and the "simple" strategy of acquiring none in the good old Gompers days before the war. That foxy old chieftain wisely appreciated that the best, indeed the only way of fighting the young and husky industrialism of his day was by a vigilant and catch-as-catch-can guerilla sniping campaign. But since the armistice, which distributed the world war from concentrated battle fronts through the entire system of modern society, American capital has come into its own as the dominant force in this universal confusion. It has not merely sloughed off its last vestiges of the industrial frontier, but it has abandoned even its horizontal trustification, until to-day it is a more or less cohesive syndicate of powerful vertical trusts at home and a world-creditor Empire

abroad. American economy has become accordingly vastly complicated, both technically and in the rationalizations for this technique. American labor became tremendously weakened, relative to the New Capital. It felt that it had to catch up, that it had to diversify its activities in order to keep up, or at least to seem to keep up, with this capital Frankenstein. If it could not fight him as effectively as before the war at least it must improve its foot work and its shadow boxing. And this need presented the following problem to the old-line labor leader—to the vested interests in the labor movement:—how can we keep the trade union movement "pure," i.e., jurisdictionally watertight, craft-separatist, class-unconscious and oligarchic,—while giving up its old "simplicity." The answer was the New Unionism generally and trade union capitalism specifically.

Fundamentally then, the motive, probably largely unconscious, of trade union capitalism is to add to the older and tougher trade union methods certain more respectable and less militant aspects which would color it more protectively in our ever more triumphant capitalist economy. The post-Gompers labor leadership feels the need of this self-protection partly because it has to on account of our industrial development; partly as a counter-reformation against the new song and dance of the boss's Welfare, Personnel Management, and other highfalutin Industrial Democracy steps with a Charleston of its own; partly as a counter-reformation against the triflingly actual and largely fictitious Bolshevik and other "revolutionary" dangers with a "revolution" of its own. And, logically enough, these labor leaders found that the best protective coloration is assimilation. And so they developed, with "expert" advice, what might be termed the trade union version of Professor Carver's brilliant thesis that labor will yet buy its way into capitalism, thus meeting capital's sacrificial "revolution" of stock diffusion midway. This general theory, on analysis, is based on the following non-resistant economic theorems: (1) that the workers' wages

have enough surplus value left to be squeezed and rinsed into further profit seeking business (which, especially in the skilled trades, is largely true); (2) that the richer labor grows by this process the less militant it need be; (3) that this "realistic" and respectable policy will render the utopian and disreputable reds obnoxious in the eyes of the rank and file. It is this general philosophy, though they are not quite conscious of it, which impels President Green of the A. F. of L. and lesser labor lights to address the National Rotary and the American Bar Association, to dedicate a "labor" window in Bishop Manning's scab cathedral, to patronize the folly of the British General Strike, to assure all and sundry that our labor movement is 100 per cent. reasonable and coöperative with capital; and which impels them inversely, to sabotage the Passaic strike as subversive not only to Messrs. Forstmann and Hoffman but to the Americanism which these names evoke; and to lend a deaf ear to various specific requests for organization by unorganized labor, for to harken to such militant requests would be undecorous to labor's "new" orientation and would, incidentally, provoke unseemly jurisdictional quarrels at the "pie-counter" where most of the labor bankers enjoy their fare.

Need of Change

The writer's contention that the New Unionism,—and with it trade union capitalism, especially in its Union-Management Coöperation features,—was and is becoming ever more inevitable, ipso facto bespeaks his belief in labor's need of changing from its old sniping methods to more sophisticated weapons with which to cut through a more complex day. The Communists and other radicals who, justly, wish our labor movement to abandon its "pure" craft separatism in favor of industrial unionism, while, absurdly, they wish it to retain its "simple" tactics for wages and hours are simply contradictory. Such a policy

would have a purely maniacal effect on labor—it would be "militant" and dumb. But this New Union trend can be used effectively only if it is used as an additional weapon to protect the main highway of the labor movement: if it is used as a weapon to organize the unorganized, say, by modern methods of propaganda, publicity, strike organization and relief; if it is used to liquidate the cultural atavism of the separatist and selfish labor union in favor of gradual amalgamation; if, in short, it is used as an enlightened and technical weapon to raise the morale of labor, instead of being used, as it is now being largely used, to rationalize its impotence.

Have Worker and Capitalist Anything in Common?

An organization, and especially an organization which is important enough to be a movement, is effective only if it compromises *within* the motivating forces for its existence. A manufactory is organized for profit, and a business which increases wages to the point of nullifying profits is, in our system, not a business but a species of lunacy. A church must render mystical satisfactions and when it tries to rationalize its mythology it is bound to deteriorate into a superficial hypocrisy. Now, the primary and essential function of organized labor is to protect the worker against wage, fatigue and other forms of exploitation and, in modern society, to extend these primary protective features from a mere humanization of the worker's duties to ever enlarging conceptions of his rights in an industrial democracy. If labor compromises in its fundamental protectiveness of the worker, it merely deteriorates into a form of dues-paying self-liquidation; and the fancier the technique of this self-liquidation the more dangerous its suicidal tendencies.

It was always to recall labor to its main job, when it became frightened or tired or philistine, that the radical bigotedly insisted that "labor and capital have nothing in

common." And he paid dearly for his bigotry. The labor movement is not an instrument to point falsely to the total disparity between capital and labor. It is a specific instrument of economic emancipation of the worker and for the change of only those attitudes and habits which are strictly economic derivatives. Aside from the economic quarrel and its obviously derivative *mores* the employer and the worker have a great deal in common in the national culture. To insist, as does the I. W. W. and the communist, that the American steel worker has everything in common with the Chinese miner and nothing with Charlie Schwab is an absurdity, which the capitalist economist has no difficulty in puncturing. He shows up this utopian characteristic of the radical mind, points out the cultural community of capitalist and labor in our national life, and from this carries over the doctrine of the complement of labor and capital into the economic field. At its most vapid we get this doctrine of wealth and work as coördinates (with naïve omission that they correlate only in a socialized order) in the prepared publicity statements of the younger Rockefeller. At its most sophisticated we get it in the most articulate and intelligent traditional spokesman of the reaction—in the liberal. And the large irruption of the liberal into the New Unionism can not be exaggerated.

The Liberal Enters the Labor Movement

The liberal always believed in the complementary theory of capital and labor, and accordingly in class collaboration. The fact that the dominance of capital was bound to gravitate all collaboration to its own ultimate favor, he would counteract by sublimating the profit impulse for a spirit of tolerant humaneness, whose utilitarianism he argued in a highly objective vocabulary. This attitude predisposed him to see all "sides" of each question and endowed him with the characteristically timid economic and social erudition, if not profundity, which made him the intellectual

par excellence of capitalist organization. And just because his temperamental evasiveness sends him on his innumerable fact-finding expeditions and palliative "techniques"—facts which in their nature are largely beside the point and techniques which grew into a technology as an end in itself—he is the ideal "expert" to frame the rationalizations of the arrested militancy of our labor movement.

The tradition of applied liberalism was always in the field of class brokerage. The prototype of the contemporary liberal, usually feminine, founded the settlements and charity organization societies of the 80's and 90's. Until the war the liberal reform movement was actively engaged in ameliorative social legislation, which Gompers half tolerated against his own convictions. A great many, certainly the best and most intelligent of these liberals, practically all of whom in relation to labor were social workers, would have been only too glad to "break into" the labor movement, were it not for Gompers' bitter hatred of the "intellectuals," which became an obsession with him from his early struggles against the socialists, anarcho-syndicalists, anarchists and others who had a "philosophy" beyond "pure and simple" opportunism. The term "intellectual" came to mean to him anybody who enjoyed a more formal education than the hierarchy of proudly ignorant labor politicians, who transacted union business on pocket notebooks, developed a labor press which for dull stupidity has no equal, and won whatever labor did win by mere toughness of fiber.

The "reconstruction" period after the war—which witnessed the series of disastrous strikes in the steel industry, in the railroad shops and elsewhere—strikingly brought out the general incompetence of the old-line labor leader. But nothing would have budged his equanimity even in his own heart were it not that he was losing his hold over the rank and file. The A. F. of L. was losing heavily in membership, in reverse proportion to the gains of company unionism. The company unions forced over 1,000,000 men to

join them, while the organized labor movement lost in the same half decade the same number—600,000 of them directly to the companies. Space forbids an analysis of the loss in morale, in conditions, in standards, in organization, in "non-partisan" political activity which the organized labor movement suffered, and is still suffering from, since the world has been rendered "safe for Democracy." The labor leader, unconsciously, was in sore need of aid and comfort.

It was then that he discovered the liberal. And as he looked him over he realized that here was an "intellectual" who had not the slightest desire to "bore from within" as did the pre-war socialists and the communists and other "revolutionary intellectuals." On the contrary, the liberal in social politics—the social reformer—merely wanted to hire out as an "expert" to the labor movement. And the labor leader hired him. Much of the New Unionism is the result.

During his four decades in the left wing of the reaction, where his every genuine effort for social amelioration was effectively squelched, the liberal had plenty of time to develop "social techniques" of every description. He developed "scientific social work," educational bureaucracies which spent their time in mental tests and New Examinations and what not, health work, and so on. The best of these reformers came to appreciate that "scientific" little doings and a highly professional lingo were all the reaction would permit them. The best type from the colleges and universities, which years ago would crowd the reform movement, now scorned it and wished to join labor. The war, which frightened liberalism into the arms of the reaction, robbed it of its last vestiges of the prestige which its laborious "objectivity" in humanitarianism had built up for it. Like the labor leader, the liberal, too, needed aid and comfort. And thus the marriage in the New Unionism between the articulate and timid left wing of the reaction and the inarticulate and hard-boiled right wing of labor was con-

summated. Now the liberal is hard at work to "educate" the worker, to tend to his health and recreation. If his training was primarily in economics he can do research, banking, management. Journals of opinion are only too glad to opinionate in favor of all these things. That is, the liberal movement itself split into two wings—the right wing staying on with the reaction, in Personnel Management, "scientific" social work, Community Organization, etc.; the left wing going or hoping to go into the New Unionism.

The leaders of the railroad shop crafts, who found it impossible to recover from the disastrous strike of 1922, discovered that they could show the railroad managers how to combine the best features of company unionism with the stabilizing advantages of trade union recognition. The miners are being flooded with Giant Coal Power Plans, which truthfully bewail the present collapse of the coal industry, and suggest schemes of tripartite collaboration between capital, the union and the state, which would develop the use of artificial anthracite and electric power as substitute for oils and wood and, one fears, would also substitute the remnants of the United Mine Workers for an adjunct of the private public utilities. It is this trend in the New Unionism, especially in its capitalist aspects, which explains the venomous hatred for the new liberal by the radical critic, who sees in him, in an American edition, the counter-part of the reformist of every age in every country—the timid sabotageur of the world to-morrow.

Mr. Babbitt in the Labor Movement

There is another highly important factor which we must unravel in the New Unionism, especially in its trade union capitalism. After the war, each country, according to its own cultural predispositions, developed a social neurosis

of strain and confusion. In America this social neurosis comes from the conflict between a deteriorated puritanism, which lacks the moral fiber of an earlier age, and the ordinary man's incapacity to face the gaff of our Imperial machine civilization. The victim of this conflict has been microscopically portrayed in Babbitt. Babbitt is an empty-headed and pathetic Pharisee, not a genuine Pharisee, for he lacks the powers of the real Pharisees who run this empire. His characteristics are Big Talk, rationalizations and an insane mania for professional recognition. Every walk of American life has its quota of Babbitts: the social worker who spends most of his time in "professionalizing" his job; the business man who would be a Gary or an Otto Kahn; the Rev. Dr. Fosdick, who desperately wishes to rival a Dewey, a Michelson and a Dean Inge in a combination of culture, knowledge and wisdom of life. Some of this Big Talk is ludicrously cheap, such as poor Babbitt's; some pretends a little better, such as the Reverend Dr. Fosdick's. The Big Talk of the old-fashioned labor leader, essentially a petty bourgeois type, is just of this kind. The language of the average "labor banker," who fundamentally knows nothing of the theory of money and banking and less of international finance if compared with such a master as Mr. Lamont, is essentially an expression of this full-o'-pep will-o'-the-wisp. The Lamont variety of financial capitalist can foreclose his little deals in five minutes (which just about gauges the possibility of labor's capacity to buy its way into financial power). The Lamonts, of course, far from foreclosing on the labor bankers, encourage them. They are waiting to see who will win in the "labor banker,"—labor or the banker. And in the meantime they are very kind to the banker.

It Depends on Who Does the Moving

The New Unionism, then, and with it trade union capitalism, is a complex of motives, of which three stand

out predominantly: (1) the natural pressure of American labor not to be left behind in our ever more technical and complex economy; (2) the mutual discovery of the old labor leader and the new liberal; (3) the social neurosis of the Big Guy.

By and large the financial enterprises of the Amalgamated Clothing Workers and, to a lesser degree, of the other needle trades are motivated by a genuine desire to keep abreast or at least in step with the trend of our machine and financial civilization; and to turn their greater technical sophistication into a militant weapon. The Amalgamated agreements with the employer bristle with technicalities to a degree which render union-management coöperation inevitable, but every inch is contractually safeguarded as militantly as possible in the pay envelope or in improved conditions.

The liberal tendency, the "social vision" attitude without militant guarantees, still permeates the bulk of workers' education and other social service labor enterprises. But it shows itself at its most dangerous in such enterprises as the B. and O. Plan, which is extending from the B. and O. shops and the Canadian Government Railways (which is a much safer place to experiment) to the mid-Western railroad shops and is developing an infectious vogue. The B. and O. Plan exacts higher efficiency from the worker without any contractual correspondence in pay, conditions, hours or even in assured steadiness of employment. It is in every detail a Company Union, whose trade union recognition robs of the educational value of the average Company Union, which at one and the same time teaches the worker the folly of craft separatism and the hypocrisy of the employer.

The Babbitt tendency in trade union capitalism we see at its clearest in the Brotherhood of Locomotive Engineers. The Brotherhood advises its members to invest in the safe and sane securities of Bethlehem and United States

Steel; it has labor troubles in mine properties owned exclusively by its members; it has gone into disastrous Florida real estate speculations; it is constantly buying railroad stocks; recently it financed a group of employers who had banded together for the specific purpose of breaking up unionism in their industry. And its official talk is a perennial address to the Kiwanians of Zenith City.

The good or bad in a movement depends on who does the moving. One need not be a radical—just sensible—to appreciate that American labor is in far less competent hands than American capital. And though it would be folly to prophesy about our trade union capitalism, it would be worse folly to deny its dangers for the labor movement; for capitalism, no matter by whom practiced, tends to strengthen capitalists.

Fannia Cohn Sees Advantages and Dangers in Labor Banking

(Paper Submitted)

Fannia Cohn (Educational Secretary, International Ladies' Garment Workers, New York): At the outset, I wish to emphasize the fact that I am not in a position now to defend or attack the development of labor banking. My discussion will be based rather on a frank recognition of the fact that labor banks are with us, that they do not owe their initiation to a single individual nor their development to a small group. We must view their growth as an important phenomenon; it is as yet too early to judge its historical significance.

Many who favor the coöperative movement object to labor banking as it functions in the United States because it does not follow the traditions of the European movement. But to approve of labor banks only if they are run in the continental European manner is rather an impractical attitude to take. We must recognize the fact that the

United States has not as yet proved to be a fertile field for the coöperative movement in the form it took in Europe.

There are excellent economic reasons for this difference in attitude towards coöperation. The most important, of course, is the fact that the larger earnings of the American worker make the small savings that a consumers' coöperative effects seem less significant to him. In America, the small coöperatives meet with less interest, too, because of the public admiration for large scale operation.

The coöperative movement in the United States thus quite naturally seems at present to take a different direction from what it took in Europe. Instead of individuals combining for coöperative activity, it seems likely that trade unions will undertake such activities for their members. The American workers function largely through their trade unions; they place great confidence in them. With the unions no longer on the defensive, no longer concerned exclusively with protecting wages and hours, but seeking and obtaining more power and responsibility, it is possible and quite natural that *they* should be the agencies for the undertaking of such coöperative activities in every field of collective human energy for their members.

With such a broadening of scope, it is almost inevitable that they should enter the field of banking, the heart of our modern capitalistic order. Through the system of credit and banking, the meager savings of the workers as well as the large investments of the rich find their way to China, Mexico, Europe and South America for the purpose of exploitation. Because of the importance of banking to the present social order, the rulers of the world have kept its operations a mystery. But with increasing strength, the workers were bound to make an attempt to penetrate the sacred temple of the capitalistic system.

Those of us who are conscious that labor has a great mission to perform through its organizations are much concerned that while labor is experimenting with the bulwark of capitalism—finance—it should never forget that it must

not imitate capitalism. This seems of especial importance in the United States where because of the abundance of wealth, workers secure a greater return than in Europe and are in particular need of ideologies. Although the daily conduct of the labor banks must be realistic, its driving force must be idealistic. Only in this way can it get the fullhearted coöperation and support of the rank and file of the trade unions.

And the confidence of the multitudes of the labor army in our new venture is essential if we are to succeed in getting their savings deposited in the labor banks. The deposits of the millions of organized workers in capitalistic banks supply plenty of money for capitalistic enterprises whose main aim is the exploitation of the workers as producers or consumers. If we draw the money into our banks we shall not have to depend on outside depositors. We shall of course accept outside deposits, preferring that the employer entrust his deposits to a labor bank than that the worker put his money in a capitalistic bank.

For the labor banks should use their funds for service rather than profits. They should limit their dividends and never venture into unfair capitalistic enterprises. As a result, they will have to search for new fields for safe investments. Such a necessity may encourage the rise of a coöperative movement in the United States.

The labor banks will probably be of greater service if they coöperate more closely with each other than they have done. In such a coöperative scheme, again, not the individual but the individual bank will be the unit. A pooling of the capital of the various banks will be extremely advantageous for the financing of enterprises of a progressive character. It is dangerous for one bank to finance a large enterprise alone; such an activity may tie up to a too great extent capital which should always be fluid. A combination of banks will find it much easier to underwrite such enterprises and should help the coöperative movement in the United States.

Of three things, the directors of the labor banks will have to be careful. In the first place, this new activity must take no strength away from the labor movement. The men and women who are leading the trade unions, who act as organizers, negotiators, administrators, propagandists with tongue and pen must not be transferred into the field of labor banking or any other labor business enterprise.

Fortunately there is no need for such transfers. We have workers in the labor movement with various inclinations. Many with administrative business abilities would much rather place them at the disposal of the labor movement than sell them to private business. And the "mortality" of such persons within the labor movement is high. These people can and should be utilized to the fullest extent. But the trade unions, the spring of all the workers' activities, must never be weakened. Its fighting spirit, its vigor must never be subordinated in any way to these new interests. So far, fortunately, unions controlling labor banks have not been deterred from carrying on important strikes.

Such strikes have served another purpose, too. They have convinced the public as well as the membership that the safety of deposits in labor banks is unaffected by strikes. It goes without saying that the safety of the bank must be a paramount care. The careful management of the bank will convince the workers of their own ability to conduct business enterprises, an extremely important matter since the workers suffer more from a lack of confidence in their ability to run their own affairs now than in a lack of ability. It will also help to influence the opinion of the public as to labor's fitness to participate in the management of industry.

The bank must be careful, too, to keep the confidence of the rank and file of the labor movement in its purposes. The leaders of the labor banks should be very careful not to create a financial caste within the labor movement, to

prevent the growth of high priests of finance, even if they work not for personal gain. The confidence of the workers will be considerably strengthened if our banks offer them services. Loan associations furnishing money at a minimum cost to supplant those organizations that impose prohibitive interest rates would be potent aids. But even more important, there should be a constant effort made through the activities of the workers education movement to enlighten the rank and file of the organized labor movement as to the aims and purposes of the movement and the methods employed in its business activities. Such education will enable the rank and file to keep in closer touch with the activities of their labor bank, encourage activities they favor and act as a check on the undertaking of any harmful enterprises.

General Discussion on Labor Banking

"Trade Union Capitalism" Not New

Mr. Budish, Editor of the *Headgear Worker* (New York): It seems to me that this new capitalism in the trade union movement is not really new. Whether it is of advantage to the American labor movement depends on from what point of view you consider it. The economics of the labor movement have always been distinctly capitalist economics. The entire trade union movement in its whole activity and the present banking and insurance activities are merely a further development of methods of conservative trade unionism. That perhaps explains why the brotherhoods took the initiative in labor banking and labor insurance. To my mind, the Brotherhood of Locomotive Engineers is perhaps the best specimen of pure and simple trade unionism, conservative, and at the same time constructive from their own point of view.

It was natural, when capitalism created its new defenses against the successful attack of the conservative trade union-

ism, that labor should be compelled to look for additional new defenses. The methods of collective bargaining in our complicated world are meeting with very great difficulties, as was pointed out by Mr. Beckerman and many others in yesterday's discussion, and it was essential for the trade union movement to find means to combat the welfare activities of many open shop companies, of many great trusts.

The pure and simple trade union has not much to offer to a working man or woman as an attraction to join the union and the company welfare departments are on the look-out, giving the workers immediate conveniences, something which is not very far from what the trade union is in a position, under the best circumstances, to offer, and a little more than the trade union can now offer. The Johnson Company, that great shoe making company, is offering its workers forty-eight hours, permanent employment, a vacation once a year, a hospital and an insurance department, old age pensions. A worker who has no recreational life does not find sufficient benefits in the union to justify the risk of joining it.

The same position is faced by the needle trades. (I am a needle trade worker myself.) For that reason, the labor movement has been compelled simply to extend its field a little by additional methods, but not new methods. They are the same old methods of trying to get for the worker a few more comforts, a few more amenities of life, a few more conveniences, under the same psychological conditions.

The question for a gathering like this is whether these new methods will necessarily give the working group organizations, whether it will get the working people away from those limitations or will strengthen them in this old orientation. This is something which is very hard to forecast. I will not undertake really to predict what will be the outcome of these activities.

The suggestion I would like to throw out here is this,

first of all, that the interest of some of the radicals and the enthusiasm of some of the less radical, is not justified. There is nothing essentially or substantially or fundamentally new in this development.

Now we do not know whether these new methods will compel a new orientation. I think they might. If the trade union movement is not able to succeed by these methods alone to keep the loyalty of the workers—they are organized because competition is too strong—then a new orientation will follow. If not, the development will go on as it has in the past.

A Few Wrong Assumptions

Mr. Robert Morss Lovett, Professor of English Literature, University of Chicago, President of the L. I. D.: The last speaker has very well said that there is nothing new in the various propositions.

Of course there are two schools of thought here—those who believe in the capture of the capitalistic system in the interest of workers and those who believe that the capitalist system must in one way or another be destroyed or destroy itself. And I have heard fallacies on both sides. It seems that one essential that remains to be proved is that the capture of the capitalistic machinery by the workers will change its nature. My own feeling is quite to the contrary.

When Mr. Soule was talking last night about the investment trust as a means of entering into possession of the sources of production, I was wondering whether, if the Railroad Brotherhoods, for example, should by operation of investment proceedings achieve the ownership of the railroads—they might very easily do that if, in view of the automobile competition and so forth, the railroads should become generally unprofitable—if they should become the owners of the railroads, would they not be capitalists in respect to the other workers and behave as the capitalistic system behaves? On the other hand, I think those who

look toward the destruction or the disappearance of the capitalist system have, underlying their views, their remarks at any rate, a feeling that the spirit of the workers is revolutionary. They make an assumption there that I think remains to be proven. I hope the discussion to-day will focus rather closely upon the effects of labor banking and other labor enterprises of that sort upon the capitalist system.

Builds Capitalist Psychology

Mr. Nathan Fine, Labor Research Department, Rand School (New York): I want to say that I was very much pleased to be here to listen to Mr. Potofsky, and, particularly, Mr. Stolberg. This is the first time in three or four years that I have been at any meeting on labor banking where I have heard anybody in connection with labor banking make a case for labor banking, notwithstanding the statement mentioned from Sidney Hillman. If you read Mr. Hillman's statement, you will find it is termed in very general language which can be used much as a document like the Constitution of the United States or the Declaration of Independence.

Labor banking started with about as much knowledge of where it was going, in my opinion, as most of us do when we have begun our existence. I remember talking to a number of so-called labor economists and all I could get out of them was that labor banking added prestige to the movement. A member of the Amalgamated can walk up and say, "We have a bank too."

If labor bankers had a more consistent understanding of where they were drifting, they would make it impossible to amend the statement in the stock issued in which dividends are promised to depositors in such a way that their friends might obtain these deposits. When the subject of labor banking was introduced in the A. F. of L., Samuel

Gompers said, "You have to go slow, because you are digging yourself in." Any one who knows the temper and leadership of a good many unions ought to go ahead with fear and trembling.

You labor bankers are lending to business men. You buy United States Steel stock because it is the best stock on the market. You will buy Chase National Bank stock because it is the best bank. You will do anything where the workers are most exploited in order to get the money, despite the fact that you say you have these Advisory Committees and buy certain securities because it is the best paper.

You have to lend money. How can a labor bank continually do business with business men and not get caught up sooner or later with their ideas and their whole point of view? There will be the possibilities of capitalistic and other profit-making incentive to make that labor leader or banker do what every other one does,—operate and manipulate for the benefit of the insiders and not for the union or the membership.

As far as unionization of labor banks is concerned, I want to say that no bank in New York City was organized until two weeks ago and two of them are not organized yet. Why? Because they didn't organize until we members of the Bookkeepers Union went to them and said, If you don't organize, we will take away our deposits.

I am a strong believer in the Amalgamated, in the spirit of militancy back of the labor movement, and I will leave this thought with you. Shall we dig in deeper to make profit for people, to build up a bourgeois psychology, or shall we build up a labor movement that has a point of view of coöperation, not business connection, but coöperation? I don't like this term, trade union capitalism. Shall we go for a labor party militant through unionization, or shall we give a few people a chance to get at the grab bag and use it for their personal gain?

Labor Leader vs. Bank President

MR. JAMES H. MAURER: Mr. Chairman and Friends: It is mighty difficult for me to speak on this subject and say anything in five minutes. How can a Pennsylvania Dutchman make himself understood in five minutes? It can't be done.

The trouble with these various movements that of recent years have been affiliated with, or rather introduced into, the labor movement, is that they have taken active workers out of the labor movement. This is not only the case with the banks, for the banks are only one of these movements.

In my own home town, Reading, we have had and still have many different kinds of coöperatives, a cigar factory, a coöperative bakery, a coöperative printing plant, coöperative stores, and we have had two coöperative banks. Now everything has succeeded except the banks. They failed and they took our money with them. And in each case when we started a coöperative, we took out of the central body and the unions the active workers. While the coöperative banks are the only ones that have failed, our dozen or more stores, our cigar factory and printing plant are worth possibly $100,000. They have succeeded, but our labor movement has become backward. We have become a little bunch of bourgeois capitalists and all we can see is paying dividends. If you want a coöperative, have it for the good of the movement, the education you get out of it, but not for the dividends you can make out of it.

Now as to the banks, Philadelphia has had a bank that failed. Every trade union in the city practically had its money in that bank and so did thousands of poor people who had been saving toward a rainy day. Everything practically went up and if they get back thirty-five or forty per cent. when it is all over, they are lucky. The result was that Mitten, the big open shop traction man, comes to the rescue, takes over the bank and now is going

to demonstrate what a capitalist can do where labor has failed.

Take the bank of the Railway Engineers. The Railway Engineers have centered all their energy in making profits, with the result that the highly skilled engineers to-day are earning less running a locomotive engine than the average hod-carrier in New York is earning. If that is what you are after—cheap labor and a few dollars dividend in a year—go ahead.

The only good thing I can see in your banking scheme is that it is teaching the workers how to do things, and if you can start a bank without crippling the industrial economic institution, the organization that fights to-day and to-morrow and the next day and is making the progress in the world, if you can do that by getting some intellectuals from here and there and bringing them into our work, there is no harm in that. But we must be careful. As the last speaker said, we are heading for nowhere, we just want a bank.

Another thing: Take me as President of the Pennsylvania Federation of Labor. Supposing we had a bank. I have never seen anything to prevent me from going into an industrial struggle. I don't care what the fight is like, if it is a just fight and we have to fight, I am willing to fight. But suppose we had a bank and had our money invested, as the last speaker pointed out, in these various institutions. As President of the bank I don't want a strike. I want peace and I put the soft pedal on whenever I can if they are going to have industrial disputes. As a banker I want peace and order; as a labor leader I want a fighting organization.

CHAIRMAN THOMAS: I want to get definite and different points of view. Search your own hearts and see whether you have really something different to say. I have heard two speakers who I should say on the whole were pretty critical of labor union capitalism. Is there any man

or woman who wants to say anything on the other side in support of Potofsky's position?

THEODORE H. MARBURG, Engineer (New York): As the Chairman expressed the idea that there seems to be too much unanimity in this meeting, I may perhaps throw some light upon the problem from an entirely different angle.

Is there really anything wrong about labor becoming capitalistic in the sense in which it is demonstrated during this discussion? Yesterday we heard much about organization of business and manufacturing concerns 40 and 60 years ago. Quite correctly, it has been pointed out that, at that time, the owners were at the same time the managers who, through their skill and experience, contributed largely to the success of the concerns; on the other hand, most of the large companies are at present managed by expert employees, who run the business for absentee-owners.

This is undoubtedly correct, but isn't the philosophy of labor still based largely upon the conditions which prevailed 40 or 60 years ago? The law has, in the meantime, made provision for the formation of corporations and the distribution of ownership-certificates, covering tools or implements of production, among innumerable people. May not the question have to be reviewed as to whether it is not quite proper for labor to be capitalistic and follow the trend of the times? After all, what we want is equal opportunities for everybody, incidentally from the time of birth and during the time of his physical and mental development. Our happiness does not depend upon the other fellow's opportunities being cut down or leveled down, but upon an evening up of opportunities. We may perhaps say upon a flattening out or broadening of the capitalistic system until in the end that ideal state of equal opportunities for all is reached. We do not seriously oppose capitalism that provides for a laboring man his own home. Is it wrong if he, at least while this present-day organization lasts, takes the next step and owns an ever

growing share in his present-day employer's manufacturing concern or in the Bank, which holds his deposit and is run with the help of his deposit? What is right in the latter respect with regard to the individual should be equally permissable with regard to the Union, which owns the Bank.

This is not an expression of a syndicalistic philosophy but just a remark such as our beloved Chairman seemed anxious to have thrown into the discussion at this moment.

Three Points of View

Chairman Thomas: There are three positions that have been indicated to-day directly or indirectly. The first I suppose is a form of Carverism. Carver of Harvard advances the beautiful theory that the solution of our trouble is not that the capitalist must become a worker, but the worker a capitalist and under that theory trade union capitalism is a step forward to the goal.

There is a second theory, not, I suppose that every man must become a capitalist, but that, in the existing condition of affairs, pending getting to a better state of society, labor capitalism is useful. That has been expounded from various points of view.

There is a third theory mentioned to-day, namely, that labor union capitalism, by its psychological effect and for other reasons, tends to put off even farther the day of a better order of society. Those three positions have been suggested.

A Weapon to Serve the Workers

Mr. Ervin (New York): This whole argument reminds me of an incident fifteen years ago in Socialist headquarters where I found a young man coming there every day. I wondered how he lived. He was an ultra-revolutionist and ultra-radical. I investigated and found him living on his brother who was a cigar maker. I asked him why he didn't go to work and he said, he wouldn't go to

work because he was a Marxian scholar and he wasn't going to help capitalism make any profit.

Capitalism is, whether we like it or not. Labor unionism, as we know it, exists because of capitalism. The functions of the capitalist system and its tactics are conditioned by the capitalist system and not by anything else and cannot be. Labor banking can be bad or good just the same as a union is bad or good. And I want to say to my friend, Jim Maurer, that he will remember five years ago I warned him to have nothing to do with the Philadelphia labor bank because it wasn't really a labor bank, and I told him what would happen.

Now the virtue of labor is so easy that it is afraid all the time that it will fall if it has anything to do with capitalism. If that were the case, we wouldn't have any contracts with employers. We use phrases very carelessly. You have all heard of class collaboration. In other words, any contractual relations must be class collaboration.

A labor bank exists primarily to do something for the workers in the capitalist system. If it does function and does do something for the workers, as it does in our bank, then it is a good thing. If it doesn't, it must be judged on that.

Now as far as the great prizes to individuals in labor banks are concerned, that is a joke and the argument that some officials in labor banks might get $10,000 is more than a joke. It isn't what a man gets for what he does, but what he does for what he gets which is the important thing in everything. I have watched the concrete work of the Amalgamated bank. I want to keep to that. I don't want to mistake phrases for facts. The Amalgamated Bank is in the capitalist system subject to the rulings of the capitalist system. It is, by the Federal Reserve system, subject to all the law of the capitalist system just the same as the labor unions are subject to all the laws of the capitalist system.

That bank has over 13,000 depositors. I know men and women who borrowed from the Morris Plan and semi-philanthropic institutions who paid between 18 and 22 per cent. at very critical times in their careers; who have been in trouble through no fault of their own, through unemployment, and have borrowed from the Amalgamated Bank at 6 per cent. You theorists and people who want Utopias to-morrow and want to go over on clouds, don't argue with any of these people who have gone to the Amalgamated Bank and borrowed money at 6 per cent., for you will fail, because they are human the same as everybody else and that percentage was vitally important to their children and to their household. Our bank has been run along these lines. Unquestionably it has made mistakes because we in the Amalgamated do all sorts of things and learn by making mistakes. But I just throw out this thought. Don't fool yourselves that you can get rid of this system by hoping to get rid of it. You have got to fight in it to abolish it and while you are fighting in it you have to get the most you can for the men and women and children who have been sentenced for life in it. Labor banking is valuable because it gives us a weapon to serve the workers. That is the only thing it is for.

Mr. David Berenberg, Teacher (New York): I think Comrade Ervin made it quite clear why labor banking should be called a newer defense of capitalism, precisely the fact that there are thirteen thousand people who would stand up for labor banking and for all it means because in a critical instance in their lives they got money for 6 per cent. Precisely, that is what creates the strength of the labor bank as a defense of capitalism, because there you have 13,000 people who are for the moment at least in favor of it and cannot be reached by any argument which will endanger conditions as they are. They want the thing to exist because it helps them over an immediate crisis in their lives.

You can't get a new state of affairs without breaking something. You can't get scrambled eggs without breaking the eggs. Old Morgan said that some time ago. If you want to get rid of the wage system, if you want to change the capitalist system and establish something approaching the coöperative commonwealth, you can't go on defending the capitalistic system by creating a labor bank which will make people contented as they are. That seems to be the crux of the whole situation.

It seems that Stolberg hit the nail on the head when he said it depends on who runs the bank. I am quite willing to agree in the hands of the leaders of the Amalgamated the labor bank is not in serious danger. I am not willing to agree that in the hands of the Brotherhood of Engineers it is not a great danger to the labor movement and not a new defense to the capitalist system. We have only to consider the attitude of the railroad engineers, the Brotherhood of Locomotive Engineers, in the new labor and wage disputes. It seems to me, therefore, that the whole matter comes down to a question of who runs the banks, what they are run for and what the basic psychology is back in the minds of those people who organize them.

Mr. Nicholas Rosenauer, Attorney (New York): Thirty-four years ago it would have been impossible to come to a gathering like this and talk about rents, profits and interest. But times have changed. We must deal with mathematical facts and all our talk, however beautiful, would not change things in any way at all. While I believe that emotions and sentiment play a great part in all of human action, yet that cannot do away with the facts.

I believe that labor banking is one of the greatest of all coöperative enterprises. I want to tell you right here that I have to take off my hat to the Amalgamated for what they are doing. They are undertaking to do things no capitalist has ever dared to think of. And it is done by

men who have never heretofore dared to think that they also know the great mysteries of capitalism.

Brother Potofsky mentioned here the fact that the workers are learning the mechanics or the technique of capitalism. That is exactly what is happening to-day. The workers, the lower classes so-called, have always considered themselves so far along that they couldn't see what was going to bother them, and the way money was raised. Now they are learning the game; they have learned it. You will find that where they destroyed capitalism in Russia, they are building it again. Why? Because you can't do without it. Who is the man behind the gun? There is an army, the workers are back of it. We don't want to destroy capitalism but we want it for benefit of all; we want to be the men behind the gun and the capitalist of to-day will be the revolutionist of to-morrow.

Dr. Laidler: We have here an Assistant Editor of a progressive organ of a so-called conservative union, the Brotherhood of Locomotive Engineers. May I ask this editor what, in his opinion, has been the effect of labor banking on this union?

Mr. Harvey O'Connor (Cleveland): The development of labor banking in our own organization has, it seems to me, been inevitable. The average wage of our members now is $270 a month. Now necessarily being prudent and cautious men, they are going to save some money and are going to invest it. Are they going to put it in the ordinary banks and invest it in ordinary enterprises or will they, on the other hand, invest in companies controlled by their own officers, and banks controlled by their own officers? Evidently they have preferred to do the latter. It seems to me that it is not a question so much of whether the members and the officers wanted to do this but practically that they had to do it. The members of the organization, among the more prosperous workers, are conserva-

tive. But they would have been if there had been no labor bank.

MR. ABRAHAM EPSTEIN: I don't think anybody questions the palliative value of the labor union. The root question is this: Isn't there a danger in the emphasis on labor banking of ignoring the great mass of workers who do not have a saving wage and emphasizing the few, let's say in the Amalgamated? You make the statement that there are 13,000 depositors. I would perhaps be willing to say that almost half of them are not members of the Amalgamated Union. Isn't there, therefore, just an overemphasis on a few people who have a saving wage, and isn't there danger of labor banks forgetting to fight for those who do not have a saving wage?

CHAIRMAN THOMAS: Mr. Potofsky will answer that in his final speech.

MR. SOLON DELEON: I want to read these statements. Frank A. Vanderlip who was once President of the National City Bank of New York said:

"Labor will have more respect for capital when it understands the difficulty of administering capitalistic enterprise."

Otto Kahn said: "I welcome cordially the entrance of labor into business. The most fruitful source of class conflict, indeed of all conflict, springs from the circumstance that those concerned do not meet and do not know one another sufficiently and that as a rule they are not adequately acquainted with their respective viewpoints, motives, problems, and manners of thought and feeling."

A. B. Fosdell, Vice-President of the Brotherhood of Engineers Coöperative Trust Company, New York City, said: "Instead of standing on the corner soap box, screaming with rage because the capitalists have real estate, bank

accounts and automobiles, the engineer has turned in and become a capitalist himself."

Now it stands to reason, doesn't it, that such men wouldn't start any movement to destroy property or ruin big business. Why, only last spring the engineers bought a substantial interest in the Empire Trust Company of New York City. If you could have seen Schwab, Dexter and the locomotive engineers seated around the directors' table, you would have recognized the whole scene as an entirely new turn in what used to be called the fight between capital and labor.

Newer Defense of Labor Unionism

Mr. Louis Waldman, Attorney (New York City): I am glad Solon DeLeon read those three excerpts opposed to banks as administered by labor. I will have something to say in support of them.

Very often a thing is good in itself, but appears bad when the reasons are given for it. That is true both on the part of the supporters and on the part of the opponents of labor banking. One of the greatest mistakes that is made by labor organizations and liberals particularly is to claim too much for labor banking. Now I know something about the activities of the labor organizations, and how banks, coöperative enterprises, insurance departments are started and are administered.

First of all, as far as its being a defense against the newer defenses of capitalism, I think that should be discounted. You will find that labor banks have been started and are successfully administered by successful labor organizations where the so-called newer defenses of capitalism do not operate or have not a foothold. If that statement is correct as you will find when you run through the list of organizations that established labor banks, you will come to the conclusion that they have been started for another reason than to meet the newer defenses of capitalism.

What are they? I have five minutes and I am going to try to put all in the next two and a half.

First, as to the right of a labor bank from the labor point of view and that is the only point of view we can discuss now. Let's say the Amalgamated has in the organization ten or fifteen million dollars. Let's say friends of the Amalgamated and members of the Amalgamated can, by a combined deposit, muster another $10,000,000. Those $20,000,000 are going to be deposited in the Chase National or the City National Bank or the "Cheat-em and Fix-em" or some other bank. That money is going to be administered by the board of directors and bodies with which the labor organizations have absolutely nothing to do and for the deposit of which they are going to get two and a half per cent.

So labor men, when they had a minute's time to breathe from the struggle on the economic field for higher wages and shorter hours, began to think what to do with their finances. They decided, instead of letting the money go to places where it might be administered to their detriment, that they would take the next step and hold the funds they had under their control, and gather the funds of supporters in order to administer them the best they could under the present system of credit and financial administration. That is, of course, the big reason why they were started.

I would like to devote just one minute to the question put both by Brother Stolberg who delivered a very concise and excellent statement of the case, and Brother Lovett, which is the crux of philosophic discussion for a conference such as this. Assuming the labor organization is in the enterprise of banking and insurance, which is another phase of banking; assuming they were to acquire (and I want to add to coöperative enterprise) certain portions of industry in which they were actively engaged, would that bring us nearer, as Budish would say, the new orientation? In my judgment, just as Brother Lovett indicated, although he put it as a question, if the labor unions acquired a good

portion of the respective industries which they operated, they would not be brought nearer to socialism or the new orientation. Socialism is a social problem; ownership and control is a social problem and banking would not bring us much nearer to it.

QUESTION: Am I to understand that Mr. Waldman is defending the labor bank as a newer defense of labor unionism?

LOUIS WALDMAN: Yes.

SAMUEL FRIEDMAN, Journalist (Brooklyn): I think that in considering this question of the labor bank it is well to consider it in connection with larger things—conditions in general, let us say. The statement has been made that labor banking is not a new thing. It is old. Yes, that is true but the significant fact is that the great momentum it has recently received is new.

Now the point is, what are the conditions that might account for this new growth? The condition of American capitalism is different to-day just as the condition of European capitalism is. Whereas a decade or two ago American capitalism was on the increase, was growing from the young to the old, to-day it is on the decline.

While capitalism was expanding here in America there was room for the legitimate labor movement, there was increasing demand for better wages, conditions and hours, and the general outlook for more prosperity gave the capitalist class enough incentive to give to the unions—as a result of their fight, of course,—these improvements in conditions. But to-day we have something altogether different. Instead of having a universal world market to look forward to and conquer, we have a universal world market closing up and we find that the chances for climbing further in the legitimate labor union field, fighting for shorter hours and better wages, etc., are closing up.

The unions are hampered; a barricade is set up against them and it is either a question of laying down altogether or seeking new pastures. And in seeking new pastures, there are two alternatives. One is to develop along more radical lines. Just what that would mean I don't know. It might mean instead of being so careful about getting 6 per cent. return, to go and unionize the masses who aren't unionized. That is just an idea that comes to me.

Instead of defending our little material well-being so carefully, let us chuck that to the winds and go out and do something real. It is a question of that or a question of keeping our union as it is and our bank accounts as they are and our automobiles, if we have them. And so we go into banking, so that we won't disintegrate and fall apart, but just keep on as nice, good, radical, ex-socialist, unions. So we have the labor banks. For that reason, I think it is perfectly all right to say that the labor banks are not only new defenses of capitalism, but one of the strongest defenses of capitalism, and the shame of it is that labor men have the effrontery to do it.

The Bank as a Developer of Morale

MR. ABRAHAM BECKERMAN: I just want to say this: Potofsky presented a very beautiful brief on the Amalgamated Bank. And he proved—this being a League for Industrial Democracy—that this would lead or incline the masses toward the idea or desire for industrial democracy. That is because he is here. If Potofsky had to write another one for the Chamber of Commerce of the City of New York, to justify the existence of the Amalgamated Bank, he would have proved exactly the contrary because the bank is the apple of Potofsky's eye and he wants it to be admired by all and everybody and that is the whole thing.

Does the idea of going into this kind of thing make the membership, the working people, more revolutionary? Not

at all. Does it make them less revolutionary? Not at all. Somebody said it was a question of who administered it.

Potofsky by nature, let us say, has a little tint of red. He is a mild revolutionist and in the management of the bank he takes care that none of the money that comes into the bank shall be put in a place where it might bring criticism on the bank. In the Locomotive Engineers', the nature of the organization made them quite careless and gave a black eye to the whole idea. They could not run their coal mine on a union basis, but what the devil did they go into it for? That is where they get themselves and everybody else in wrong. What is the idea of it all? The idea is this: First of all, the possibilities are that a certain amount of savings of workers may be put into a bank where it will not be used against the workers. Here at least you might confine part of your money that might not be used against you and your craftsmen on certain occasions. That is value number one.

Now comes the other proposition where somebody said the Amalgamated member says, "Well, that is my bank." And he feels good. Don't you think that is valuable? Don't you think the morale of the organization is valuable and the confidence of the members in the organization or part of the organization? And don't you think, furthermore, that the manager who knows that the Amalgamated has a bank has a kind of fear? And isn't fear a very important element? Isn't it important in the struggle between labor and capital? When a member goes past the Amalgamated and says, "That is my bank; my union owns that bank," and he feels good and has more confidence. I say it adds to the strength and possibilities of organization.

Now comes one more point. Does the bank take away people from the labor movement itself? If a man reaches that stage of the game that he prefers to monkey around with figures, sitting on a stool, to going out and organizing, good riddance. Furthermore, is it education to the workers? Nothing of the kind. I am the biggest man in New York

in the Amalgamated. I am the manager and I am supposed to know a whole lot about it, so when the new order comes I will know all about banks. Let me tell you I know nothing at all about it. The officers know less and the masses of people know nothing. The only value and that is why I said I had a new point, is that the Amalgamated members are proud of the bank and the manufacturer says, "They are strong; they have a bank. We must be careful."

MR. AARON DIRECTOR, of the Portland Labor College: I have been asked to correct the statement that all labor banks are founded by unions that are wealthy. According to the American Labor Year Book, the American Flint Glass Workers' Union with a membership of 7,000 members, getting an average wage of $32.23, founded a bank on June 9 with a capital of $200,000.

DR. SABLOFF, Dentist (New York): We have two principal kinds of banks. We have the ordinary business bank and the savings bank. Most of the money belonging to labor is found in the savings banks, or in the insurance companies. I would like to ask Mr. Potofsky why it is that labor, when it entered the banking field, chose the business bank where the business man usually keeps his money? A laboring man very seldom has a checking account and very seldom does he go to a bank to borrow money. It is the business man who needs this kind of bank. Why didn't labor establish savings banks?

MR. FLANZER (New York): If the unions have organized their trade 100 per cent. or 90 per cent., do they find time enough to go to work and organize a bank so that the morale of the members should be heightened by the feeling —we have a bank? Have they time enough for it?

MR. HARRY WEINBERGER: Isn't it true that the bank, in addition to strengthening the union's membership, has

been able to help the miners, the steel workers and other people on strike? And hasn't your bank helped other striking unions and in that way assisted them in getting higher wages and better conditions?

QUESTION: How many savings accounts have you in your bank that are essentially labor only?

DR. LAIDLER: Does Mr. Potofsky draw any distinction in the value of such banks as the Empire Trust Company where the Brotherhood has bought into the Bank, and such banks as the Amalgamated, which is controlled entirely by a labor union?

Potofsky Sums Up

MR. POTOFSKY: When I was a youngster I used to go to hear speeches. Among the speakers I would go to listen to were Eugene Debs and Bill Haywood and some of the others of that group. I remember a question once put to Bill Haywood as to what he thought about political action. His answer was—"I believe in anything that is likely to help labor. I don't care by what name you call it."

We are in the labor banking movement to promote the cause of labor. We want labor banks for the same reason that we want labor temples, and shorter working hours, and better conditions. We want banks and the other things because we want more leisure, more culture. Essentially and primarily because we want more power.

We have no apologies to make to radicals or conservatives. Now, it is fine to talk about the coming social order but what are you going to do until that happy day when capitalism goes down? That is really the crux of the problem. What are we to do until such time as the ups and downs of the franc and the lira bring about the collapse of the capitalism management of industry and com-

merce in Europe and thus ultimately the breakdown of capitalism in this country? Are we to do nothing but wait?

We have devised these little welfare schemes, as someone called them, to help the labor movement. You have all heard about the sweat shop. You have all heard about the sixty-hour week. How long think you did it take the Amalgamated to do away with the sweat shop, to humanize the work hours? Was it done overnight? Of course not. It took us ten years before we brought about the present order out of that chaos. Now, do you expect to have our social state brought about overnight? And—just by doing nothing? Naturally, you have to prepare. One passes by Union Square and points out—"There is a union labor bank that, I understand, is doing well." The labor movement profits by this added confidence in the ability of labor to do things.

Some of you may discount it; I don't. And I don't, for the reason that we have had some experience in the labor movement. I feel enthusiastic about the effect that some of these things have had on the American workmen—greater effect than the socialist has had, if you will.

Now as to some of the questions. Some people are afraid lest the revolutionary spirit disappear. We had in the Amalgamated—and I draw my conclusions from the Amalgamated,—a strike against a big concern which operates in New York and Chicago, the two cities where we have banks. That strike lasted nineteen weeks. It was one of the biggest fights the Amalgamated has had. We spent $600,000 and I tell you if it had not been for our money reserves, the fight would have been more difficult. The cause did not prevent us from going through with the fight. Just to the contrary. The banks were a help to us even though we did not draw support from our banks, and would not, any more, than from any other banks. But there was confidence abroad that the banks would strengthen our hand. No, the banks were no impediment to the fighting spirit of our union.

When we have to face an industrial proposition we will face it regardless of whether we have one bank or ten banks, or none. Our industrial relations and their nature are determined by the labor organization proper and is a matter of leadership. Not infrequently comes action from the top. The forty-four-hour week was prompted by the leadership. We forced it on our people. When we thought conditions were ripe for introducing the forty-four-hour week in our industry, we saw it through. In 1918 we decided for it and by 1920 we had it accomplished. Should we arrive at the conclusion that there is a real possibility for the introduction of the forty-hour work week, there will be action, banks or no banks. These things are regulated purely by the foresight and the strategy of leadership and cannot be affected by the institutional considerations of the banks. Given the proper leadership, I don't believe that the labor banks themselves would go in the direction of capitalism.

Take our interest in housing. We have just organized a corporation for the purpose of building houses. Why are we interested in housing? Do we want to make realtors of our people and produce a new class of well-to-do workers? No. We are interested in fostering a true coöperative enterprise. One of the main features of our housing enterprise is the clause to the effect that the tenants, who are going to run the houses, and own the houses, ultimately shall have no right to sell their apartment or the houses, so that the house will stay coöperative. Every tenant will have a vote in all matters, and when they no longer want to hold their house, they have to sell it back to us. We want to have true coöperation in the whole business.

A question about investments was asked. I want to tell you that we make no loans to clothing manufacturers. That is a policy of the bank which has been decided on by the directors and the majority of the directors are members of the union.

We won't buy Pennsylvania Railroad bonds. We would not buy Steel bonds. We don't do that, not because these bonds are not sound. We do that as a matter of labor attitude. We can buy other bonds equally good, and we do, so why should we deal in paper of corporations that maintain an open shop policy? It is quite natural that we do not.

Thus even in our limited way, with the paltry sum of $150,000,000, which the labor banks command to-day, we discern and discriminate and pick some things that are favorable to labor.

No desire for gain dominates our bank policy. Our dividends are limited and our first aim is service. We are not out for profits at the expense of safety.

It is not true that we are drifting. I submit that we have calculated every step very carefully. We have always had coöperation near our heart. By 1920 we saw the experience of the Brotherhoods and we thought that it was time for us to step into the movement. The big lockout toward the end of 1920, made us postpone the labor banking enterprise until 1922.

I want to say a word about the Brotherhood that you have all so eloquently criticized. I am not going to present a brief for the Brotherhood. I don't know enough about them. But from reading *The Brotherhood Journal* and the other labor publications, including the *American Federationist*, I submit that I have found more radicalism in the Brotherhood of Locomotive Engineers *Journal* than in a great many of the labor union publications. That may be due to Coyle, but the organization stands for it.

Now to come to some of the other questions. First, some of the technical questions about the number of savings accounts. There were two relevant questions. We have no actual statistics as to how many of the depositors are members of the Amalgamated or other unions. Some reference to the Brotherhood bank about two years ago mentioned that about 14 per cent. of the members of their

union were depositors in the bank. In the Amalgamated the percentage may be slightly higher. I don't believe it is more than one-third. No more than one-third of the depositors are members of the Amalgamated. The others are outsiders. I think that is an advantageous point. It helps the bank keep its ground in case of any big move on the part of the Amalgamated, such as a strike, for instance.

Is there a distinction between the Empire Trust Company and other labor banks? Decidedly! The Empire hasn't got any limited dividend features at all, as far as I know. The Empire is an investment by the Brotherhood, as far as I know. It is not a labor bank. It is owned by labor, that is all you can say about it. I am not sure as to whether the Brotherhood has absolute control over the institution. If they did, they might introduce the limited dividend feature which they have installed in other banks. They have not. So the Empire is not a labor bank. The other labor banks that have the limited dividend features and the other features of coöperative intent are labor banks.

Someone asked about savings and commercial deposits. It is our policy to cater to savings deposits. The labor banks are both savings and commercial banks. The reason we engage in commercial business is not because we are anxious to accommodate the small business man but because we have to do it, if we want to run a bank and do business with a view to our general aims. But in our policies we are decidedly conservative and we cater more to the savings end of the bank. We would not be a bank if we did not have commercial checking accounts. We have to have them but we are conservative. We encourage savings, and savings in the Amalgamated banks constitute a larger part of our deposits than do commercial accounts.

In conclusion I want to say that what we are building is a new institutionalism, a labor movement institutionalism. We are rooting labor definitely and firmly in the life of the community, and I think that is a substantial contribution to the longer aims of labor in this system of things.

MR. STOLBERG: There can be little doubt that the labor movement has been weaker since the war than it was before the war—in its militancy, which is the reason for its existence. What I meant before by the statement that the labor movement is always intrinsically opposed to capitalism, even in this country, can be explained if I am more specific. What do we all in our own minds instinctively realize as the primary function of organized labor in America? First of all, obviously, the organization of the unorganized. That is its primary job. Secondly, the bridging of what Professor Ogburn calls the social lag of our trade unionism and its development toward industrial unionism. It is such essential presuppositions that we attribute to organized labor, if it is to function, and in this fundamental sense our organized labor movement has very much weakened since the war, in spite of the New Unionism.

Still, the new unionism is justified simply because the labor movement couldn't help its growth. But far from being a new enlightenment—it is largely the cultural groping of a baffled state of mind.

The capitalist, too, has developed a New Capitalism, besides the vertical trust. He is expressing much the same confusion in his "welfare work," "personnel management" and what not. But being abler through experience, he does it more ably than labor and uses it as a weapon. We recognize his greater ability in using these "new" methods by referring to them as his "newer defenses."

American labor cannot fall behind in this semi-cultural, semi-technological development. It must speak the language of its day. But it is as yet a rather confused language. And this confusion can be cleared up only if the New Unionism, especially trade union capitalism, is used to labor's historic ends and not to "collaborate" with an employer who controls all the means and methods for such collaboration.

CHAIRMAN THOMAS: First may I assume that you are agreed that the principle of Carverism is unsound, namely, that you are not going to solve the general social problem by having workers either individually or collectively become capitalists. Is there general agreement?

(There was general assent.)

In that case, remember I am an impartial Chairman, but let me say I was surprised to get an advertisement from an Amalgamated Bank in which was quoted a sentence at the top from Carver. It may have been all right there, but it wasn't all right in Carver's context. Labor banks cannot defend themselves by appealing to Carverism if they mean to attack Carverism.

Are we all agreed that you can manage a labor bank so that it is a bad thing as, for example, when you finance a non-union combination? I think we are indebted to Waldman for a phrase. Waldman says, "Of course your labor bank isn't going to revolutionize society." Given certain conditions labor banks are bulwarks for the union principle. You don't have to say more than that of it just at present.

How many think, that, given present situations, labor banks are a defense of unionism when properly run?

(Many hands were raised.)

QUESTION: May I ask if Mr. Potofsky's union is typical of the American labor movement?

CHAIRMAN THOMAS: That is a relevant question, but we won't answer it now.

There is still another position. You can say that although the Amalgamated does pretty well, still the dangers are so great and the psychology of getting your people to have a stake in capitalism is so great that, in spite of all this, in spite even of some apparent benefits, on the whole the labor banking movement is not a bulwark of unionism but a bulwark, in the large, of capitalism.

You may say one final thing. You may say, we don't know whether it is a bulwark of capitalism or a bulwark of unionism. It may be a little of both but we can't help ourselves in the present condition of labor and all we hope is that you labor bankers will run them as well as you can and let the future decide the rest.

SECTION III. CHANGING TACTICS OF EMPLOYERS TOWARD THE WORKERS

Dunn on Company Unionism and Newer Tactics of Employers

ON Saturday afternoon at 2 P.M., the Conference again met to consider the question of "Newer Tactics of the Employers Toward the Workers." Robert W. Dunn, author of "American Foreign Investments" and recently a special student of company unionism, was the first speaker.

Newer Developments in Employers' Technic

MR. DUNN: The wide range of welfare expedients now employed by American employers constitutes a definite challenge to the trade union movement. Corporations, large and small, have in recent years adopted a most extensive variety of devices which—taken at their face value—are designed to make the lot of the worker in industry more humane, comfortable, and agreeable, and to make the worker himself more loyal and obedient to the corporation.

Among the activities, usually set up and supervised by a labor manager, a service or personnel director, are such as the following: employees' mutual benefit associations, with sickness and other benefit features, works councils, shop committees or employee representation plans—these three being known to the trade union movement as company unions—profit sharing and bonuses, company insurance and pensions, company magazines, stock subscription plans, thrift schemes, building and loan plans, safety and sanita-

tion committees—and a hundred more variations of the welfare theme, such as service pin associations, veterans' clubs, athletic teams, payroll propaganda slips, and even country clubs and company brass bands.

Some corporations develop this program very extensively in the attempt to make the plant the source and center of all good things in the worker's social life. In this way they hope to bring in what they term the "new era in industry." The "golden rule" and "the corporation with a soul" are other terms used by enthusiastic supporters of this approach to the "man problem" in industry.

In establishing the various plans and services for the workers, employers are not moved to any great extent by humanitarian or altruistic considerations. They expect from these activities concrete benefits to the business, in other words, bigger profits, more and cheaper production. As a rule they hope to realize such benefits in the form of reduced labor turnover, long service records, enhanced loyalty, contentment and morale, as well as freedom from labor troubles, increased productivity, lessened labor cost, and ample labor supply at all times. The employer may also have in mind the acquirement of a reputation in the community as a "progressive" employer, one who emphasizes the "service" ideal and who may perhaps gain considerable advertising advantage from the proper capitalization of this idea. Witness the excellent copy prepared for the Standard Oil Company of Indiana which appears regularly in the advertising section of the *American Federationist*.

On one or more of the above counts the expenditure for welfare and personnel purposes usually justifies itself as a quite profitable investment. Unless it does so it is sooner or later recognized as a liability and abandoned, often in connection with a change in management, as for example, in the case of the American Woolen Company two years ago, and in the case of Morris & Company's consolidation with Armour & Company, meat packers. Persons who

have had occasion to look into the cost entailed by specific corporations in carrying out what is known as a "well-rounded welfare program" have found that it comes to but a fraction of the amount that would be necessary to grant the workers a 10 per cent. increase in wages. It may be concluded from this that a carefully conceived and scientific program of service activities is usually a paying proposition if it keeps down agitation and tends to immunize the workers against the temptations offered to them by trade union organizers to seek higher wages, shorter hours, and other substantial benefits to be won through union activity.

The net result of all these activities in many cases seems to be what the employer expects—an increased loyalty to the firm, a greater dependence upon its welfare features, and an acceptance of these features as a part of the payment for the job. This fixation of loyalty upon the employer in just so far alienates the worker from his fellow workers in the industry at large and leads him to identify his individual interests with those of the company rather than with those of his class. The result is what the League for Industrial Rights calls "factory solidarity" as opposed to "class solidarity."

Company Unions

One of the major devices now employed to achieve company loyalty and eliminate labor agitation is the company union, a term applied by the trade union movement to systems of "employee representation" through works councils, shop committees, and industrial assemblies. Any company-devised program for giving the workers some legislative function concerning even the most insignificant matters or grievances arising in the shop, plant, or works is now given this name. Mutual benefit associations, safety committees and a few other types of associations are usually excluded from the category, but any plan that offers the

workers any slight participation in conference, even of the most advisory character, on shop problems is now referred to in the labor movement as a company union.

The company union movement is a war and post-war growth. The joint committees adopted in industrial establishments by various war boards initiated the practice. The achievement of "industrial peace" and the speeding up of war production was the immediate purpose of their introduction. After the war the large labor turnover and the general success of the device in meeting certain labor problems induced employers to experiment further with them. Certain industrial evangelists helped to popularize the idea among the employers. The result has been a growth in the number of councils, as they are called by the National Industrial Conference Board—the only agency making statistical surveys in this field—from 225, representing 391,400 workers in 1919, to 814, representing 1,177,037 workers in 1924. Since that date the number of councils and the number of workers involved has remained stationary or slightly declined, according to the same authority. There is reason to believe, however, that the Conference Board has not included all the organizations which are now designated as company unions by the official trade union movement. Particularly is this true with reference to the railroad industry.

The railroads have been particularly hit by the growth of company unions, the trade unions affected having been chiefly those of the shop craft workers, the clerks, the maintenance of way men, the telegraphers and, on some roads, the signalmen. However, practically every class of railroad workers, outside of the strongly organized engineer, firemen, trainmen and conductors brotherhoods, has been affected by the rise of "independent associations." Many of these have not been developed as systems of inside employee representation, such as that on the Pennsylvania, but rather as outside associations, fathered and controlled by the company, but sharing many of the forms and functions

of the regular trade union of the A. F. of L. type. Typical of this sort are the Associated Organization of Shop Craft Employees on the Great Northern, the Association of Maintenance of Way and Miscellaneous Foremen, Mechanics and Helpers on the Santa Fe System, and the Shop Employees' Association of the Union Pacific System. Altogether more than 60 railroad systems are represented in the list of those having independent associations not in any way affiliated with the A. F. of L. or the four railroad service brotherhoods.

Other industries which have felt the brunt of the company union offensive have been notably public utilities, meat packing, lumbering, rubber products manufacturing, the printing trades, and miscellaneous factory industry. Some of the important American corporations using company unions for all or most of their employees are the Armour, Swift, Wilson, and Cudahy companies, the General Electric Co., the Bethlehem Steel Co. and subsidiaries, the Standard Oil Co., both of New Jersey and Indiana, the Colorado Fuel and Iron Co. (coal mines and steel works), the Goodyear Tire and Rubber Co., the International Harvester Co., the Pacific Mills of Lawrence, the Shell Oil Co. of California, the Pullman Co., the Western Union Telegraph Co., the Phelps Dodge Corporation, the Westinghouse Electric and Manufacturing Co., and the Amoskeag Mills of Manchester, New Hampshire. Company union development has been greatest in large industry, more than half of the million workers in them being covered by establishments with over 15,000 workers each. Almost all the corporations mentioned above are of this type. Some few of the smaller factories, however, are operated by what are described as "liberal employers" who are said to be inspired by religious, ethical, or conscientious motives in seeking to introduce company unions for the purpose of realizing their conception of "industrial democracy." This, of course, means no surrender of primary

property rights to the workers, but permits them, while the employer sticks to the practice of his "social gospel," a certain voice in the minor matters of shop management.

Employer Objectives

What are the employer's objectives in introducing the company union as, admittedly, these schemes are outlined, prepared, and introduced through the initiative and force of the company management and not through the efforts of the workers? First we may mention the benevolent or humanitarian type of employers just referred to. They have a genuine concern for the souls of their workers and are convinced that experimentation with the "freedom and responsibility" permitted under employee representation, is nothing more than their Christian duty. Some of these employers also have a certain scientific interest in seeing the capitalist industrial machine progress with the fewest possible hitches. They consider their schemes of shop committees definite contributions to the "newer era in personnel relations" as Mr. E. R. Burton calls it in his recent work on "Employee Representation."

Then we have the more hard-boiled types of employers and corporations which, while perhaps varnishing their motives in much the same verbiage as the really humanitarian employer, are chiefly interested in the company union for the reasons previously stated—to dispose of the existing trade unions and set up relationships with their workers which will eliminate completely the intervention of any outsider in the shape of a trade union official. The history of company unions indicates that a substantial number of the employers, chiefly the larger corporations, have instituted the company union mainly with this objective in mind. Examples that might be cited are the Union Pacific, the New York, New Haven and Hartford, the Pennsylvania, and many other railroads, the Amoskeag Manufacturing

Company, the Interborough and Brooklyn-Manhattan Transit Companies in New York, the Milwaukee Electric Railway Light and Power Co. and a host of others.

Then we have a considerable number of companies that have been only sporadically harassed by labor organizers and whose workers have never been successfully organized into trade unions. However, they have been farsighted enough to prepare against the advancing tide of unionism. The Standard Oil interests and the Rockefeller steel mills are of this type, as are the Pacific Mills, the Pullman Company, the Goodyear Tire and Rubber Co. and the International Harvester.

Of course many companies may be said to have installed company unionism for a mixture of motives. They scarcely fit in any of the categories above mentioned. But whatever the objectives, we know this—that with three or four exceptions, trade unionism recognition has vanished with the advance of the company union. The latter has simply crowded the other out. These two antithetical forms of labor organization and industrial government have not been able to sleep in the same bed, and in 99 cases out of a hundred, the employer has been only too happy to use the "inside" union to put the trade union in the position of "outside looking in."

Labor's Argument

When the trade unions have awakened to the real menace of the company unions and denounced it at succeeding conventions of the A. F. of L. they have argued correctly that the company union is a weak and ineffective instrument for the workers. They contend that:

1. It has absolutely no bargaining power, which, as is conceded, rests upon the ability to strike;

2. It has no treasury and no financial strength, and no backing from the general "world of labor";

3. It concerns itself solely with non-vital matters and

petty grievances, and even in these the committees have usually only advisory functions;

4. No separate mass meetings of the workers are permitted under the company union;

5. No experts, statisticians, lawyers and other advisors are permitted to represent the workers in conference and bargaining councils;

6. Control in joint committees is usually held by employers, and in most cases the management has the final veto in all matters;

7. The works committee covers only one plant or company. The employers' unions and associations, on the other hand, cover the industry;

8. In spite of all "no-discrimination" clauses, agitation for real trade unionism almost invariably results in the discharge of the "agitator";

9. Decision of the committees apply only to one plant. Broader factors affecting the whole industry determine wages, hours, and basic conditions. No organization in any one plant can have any effect upon them;

10. Workers in company unions have no collective political power nor can they fight for labor legislation. On the other hand, they may often be used to serve the political and legislative purposes of the employers.

Why the worker in any plant will submit to the company union is a problem puzzling the minds of many a trade union organizer. Some contend that the worker without any trade union background or with only a very shallow wartime trade union experience, sees some advantage in getting a union "without dues" and that his Yankee zest for a bargain blinds him to the more fundamental dangers in an employer-controlled organization. Others admit that the company association does give the worker at least a semblance of self-expression in matters concerning his immediate working life, and that the employers' slogan of "One Big Family" makes a more immediate

sentimental appeal, at least in times of relative prosperity and job security, than do the conflicting notes of the current business type of trade union wrangling over jurisdiction and per capita.

Are the Trade Unions at Fault?

This of course raises the whole question of industrial unionism as against craft sectionalism and the part the latter plays in exposing the workers to the appeals of company unionism. Every one who has watched the growth of the company union has attributed the ease of some of its advances to the pathetic divisions existing among the workers as a result of the ancient craft unions existing among them. The failure of these craft bodies to fuse into a solid front in order to attract all the workers in a given plant, rather than just a few of the higher skilled or better paid, is one of the important explanations of the rise of company unions. As against this narrow craft solidarity the management offers the "factory solidarity" alternative. All the workers in one company union, no discrimination because of wage grouping, craft, skill, or sex. Certainly, this sounds on the surface better than the old craft-conscious and hesitant invitations of the trade unions. In the General Electric Company, for example, a dozen or more sorts of unions are eligible, under the A. F. of L., to organize the workers. This fact in itself makes it easier for the company to open the door to all workers and to invite them to enter equally into such "freedom, fraternity" and what not, as the company may care to grant them. Practically all the big companies present the same situation, the automobile, the rubber, the electrical and other such industries illustrating the weakness of the old-fashioned craft unions in the face of modern large-scale industry,—in the face of the company organization with its many inducements to the workers to be loyal to the company rather than to some petty guild of skilled crafts-

men to which only a fraction of the workers are eligible in any event.

Another weakness in the present trade union situation is, of course, the persistence of dual unionism, particularly in such industries as textiles. The conflicts between the various unions competing for the same jurisdiction either in or out of the fold of the A. F. of L. has had the same effect upon the growth of company unionism as has the persistence of the antiquated craft unions mentioned.

To this weakness should also be added the general hesitation of the eligible trade unions and their lack of militancy when faced with the problem of organizing the unorganized, particularly in company union territory. Such railroad unions as the clerks, and the maintenance of way men can be said to have put up something like a real battle to resist the company union and reach the unorganized. The electrical workers and, to some extent the machinists, have also faced the problem; but the mass of the unions with jurisdictions touching company union territory have shown appallingly few signs of life when confronted with the employers' substitutes for the trade union. Many, like the steel workers' union, seem scarcely to be aware of the number, types, and strength of the works councils now functioning in such great plants as those of the Bethlehem Steel Corporation. It is hoped that these trade unions will awaken to the danger of the company unions that threaten to wipe them out altogether, and that they will devise some strategy for effectively counteracting their influence.

Tactics for Meeting the Company Union

This raises the whole question of the tactics to be pursued by such unions as have the will or the desire to challenge the sway of the company organization. There seem to be open at least two clear-cut methods of fighting the company union, depending on the strength of the company union and the conditions existing in the challenging trade

union, as well as in the plant or corporation involved. One is open struggle and exposure, such as attacks in the trade union press, and the circulation of shop papers such as have recently been edited by trade union elements in company union strongholds like the Westinghouse Electric & Manufacturing Co. By this tactic, if properly carried out, the whole company union farce may be shown up and the workers made to lose confidence in it and to join the trade union instead.

The other tactic is the now quite popular one of boring from within. Mr. William Green and Mr. William Z. Foster both approve of it so there ought to be no questioning its value as an effective trade union answer to the company union situation. The idea, of course, is to have all loyal members of the trade union work as energetically as possible within the works council in order to bring real demands before the joint conferences and show up the inability of management to grant these demands. Instead of permitting the shop committees to remain merely passive and advisory bodies called together at the whim of the labor manager to discuss inconsequential matters and to find out "what's on the worker's mind," the borers within it should strive to make it serve the workers in adjusting their real grievances concerning wages, hours, and other vital matters.

Experience with this tactic seems to have been rarer than might be supposed. The Railroad Telegraphers tried it on the Pennsylvania Railroad but without success. In some instances the "agitators" have been "eased off" their job as "representatives" to the works committees, or have been dropped from the payroll entirely because of some petty violation of a technical rule. In other cases, those who were elected in the expectation of getting something for the workers have been ready enough, merely to keep an eye open for irregularities but otherwise to cause the management little trouble. In a few cases, however, the objects of the more aggressive trade unionist have been

achieved. We find that a number of works councils went out of existence between 1922 and 1924 because of "friction" due to "radicalism on the part of some of the employee representatives," or because the "shop committee caused constant agitation," or because its members proved "too radical."

Conclusions

In spite of the various tactics devised to resist the advances of the company union there can be no question that they have gone steadily forward, at least during the period 1918 to 1925, and, if the number of books and articles that have been prepared on the subject by employer's agencies is any indication of health, it would seem that they must continue to spread. One explanation of the growth of the company union is the strength of the propaganda and publicity controlled by the capitalists and their ability to "sell" any new idea to the worker through personnel officials, labor managers, and other hired experts which the workers are, of course, denied under the company union plan. The "yellow dog contracts" have also tended to increase the number of workers included under the company unions, as in some factories, mines and railroads, workers, before they are employed, must sign one of these agreements binding them to membership in the company union and against membership in the trade union. This practice is current on the traction lines in New York City, and on certain western railroads with company associations.

It is also pointed out that in some industries the native American workers are misled by the employer's propaganda of "outside agitators" and "foreign labor unions" directed against trade unions. The employers point out to the workers that the only "100 per cent. union" is the company union. Under the spell of these social chauvinis-

tic catch words the workers are brought under the yoke of "employee representation."

Whatever the reasons or motives leading the workers into the company associations there can be no doubt that they have had a marked effect upon the American labor movement. First, they have gained hundreds of thousands of members, as a matter of fact about the same number of members as the regular trade unions have lost since the war-time peak. Secondly, they have raised obstacles to organization in the unorganized industries. For these company committees are made to settle just enough of the workers' secondary grievances to satisfy many of them in a superficial way, and render them less ready to listen to the appeal of the trade union, particularly if that be the narrow type of craft union previously mentioned.

It is also clear that in some industries the company unions have been used as a vehicle through which the workers have been granted certain welfare benefits such as improved housing and sanitation, the impression being spread among the workers through the company magazines that without the shop councils they would not have secured these improvements. The worker is made to forget that all of the major improvements in labor conditions have been won through the trade union and that the relation of the company union to the trade union is really that of a parasite feeding on the gains already won through the battles of the trade union. Moreover, those workers who are elected as delegates to the company union committees are often likely to be its enthusiastic advocates, as they are frequently given special favors by management and sometimes advanced to superior positions for services rendered while members of the company committees. These favored workers act as convenient conveyors of the management's economic ideas and the medium through which the capitalists instil their political and economic philosophy into the minds of the workers.

Labor Spies

The employment of labor spies is distinctly not one of the new or newer defenses of capitalism. I have a notion that it was included on the program by some one who feels deeply the hypocrisy of some of the corporations that are now using both the old method and the newer methods to smash the back of organized labor. I suspect this person had in mind such eminent practitioners of "employee representation"—not to speak of conciliation, harmony, and good-will—as the Pennsylvania or the New Haven Railroad, the Forstmann and Huffman Co. of Passaic, the Sperry Gyroscope Co., the Western Union, the Standard Oil Co., The Pacific Mills, the Washburn-Crosby Mills, all of which have nests of spies working in their company unions and in their plants and offices. Indeed, it is known that the company union among the shop workers on the Boston and Albany and on the New Haven were introduced through the good offices and the day-to-day "cultivation" of operatives working for the Sherman Corporation, the largest labor spy bureau in America.

This is not the first time that this has happened. In a number of organization situations, particularly in the textile industry, I have come upon ordinary roughneck detective agencies attempting to install Senates and Houses of Representatives and other "industrial democracy" schemes to defeat the organizing efforts of the real unions. It is apparently not considered either inconsistent or hypocritical for such companies to be talking works council phrases with their tongues while carrying out under-cover operations with their spies.

The bulk of the labor spying is now carried on by specialists who work under other titles, such as "engineer," "industrial relations expert," "industrial X-ray service," and a variety of similar professional-sounding names. For example, Mr. James Cronin, who was formerly the head of the International Molders' Union in Philadelphia, as

well as a member of the Pennsylvania State Industrial Board, now solicits business among the foundry employers under the title of "industrial counselor and engineer," while the Railway Audit and Inspection Co., doing the work for the U. S. Steel Corporation and many railway systems, advertises itself in such magazines as *Industrial Management* under the heading "Human Engineering." The notorious Sherman, with his frequent changes in name, uses the constructive words "Production Engineering—Industrial Coördination," and promises his clients "scientific and technical material" on house organs, company pensions, "pay envelope stuffers," employees' clubs, plans for stock selling campaigns to workers, "literature and slogans for workers," and a score more of the fancy frills now considered indispensable to the business of keeping workers quiet and contented.

Sherman still remains the leader in the labor spy field and is considered the most expensive. He also has the richest customers and he charges the client firm $600 a month for one operative; and any member of his high-pressure sales force will tell you that one Sherman client, a large railroad, pays the Service more than $350,000 annually for some 50 operatives. This road, incidentally, is one of the prominent leaders in the company union movement.

In spite of these large figures, the business can operate on a very low overhead as it involves nothing but stationery, "research workers," the training of operatives, and the success-talking salesmen. But it sells well, for the point is always made by Sherman business getters—"If we could save you but one per cent. of your pay roll it would be worth the service. Think of the losses in strikes we can prevent through our invisible work among your workers."

Another of the larger corporations providing this form of service is the Corporations Auxiliary Company or, as it is known in New York, International Auxiliary Company, with three or four more names which it uses to dis-

guise its employment department. Its operations cover chiefly the territory east of Chicago, and it devotes special attention to the textile mills. One of its operatives of 14 years' standing in the silk mills of Paterson and a strike leader in 1913 was recently exposed, as have been other such operatives working for the same corporation in Chicago, Akron, and elsewhere.

Other agencies active in the industrial field, particularly in New York and vicinity, are those of Schindler, Foster, Burns, Pinkerton, O'Brien, Manning, Dougherty, Cosgrove, and a host of other straight detectives who make no bones about their industrial activities nor try to veil them under such terms as "technical and research division." Then we have special corporations or groups of corporations hiring their own spies or developing them in their own business; the National Clay Products Association, the Public Service Corporation of New Jersey, and the Passaic Council of Wool Manufacturers are notable examples of this espionage carried on without payments to outside agencies. Additional light on the elaborate spying and blacklisting system of the Passaic mill owners has been thrown during the present strike, thanks to the confessions of one man who had been employed since 1919 in their employment office.

Ordway Tead States the Technician's Point of View

Mr. Dunn's paper was followed by an address by Ordway Tead, co-author of "Personnel Administration," and lecturer in the New York School of Social Work.

The Record of Fifteen Years

Mr. Tead: It is a fact that the attitude of employers toward their workers has changed remarkably in the last 15 years. And this change has been reflected in the adop-

tion of a great variety of methods and procedures, the meaning and significance of which are here under scrutiny. The subject of this conference—The Newer Defenses of Capitalism—assumes that this is a conscious development so far as employers are concerned, looking in the direction of defending their present position and power. Whether or not this is a fact it is a proper part of this discussion to consider.

Let me first remind you that 15 years ago there were no executives in industry especially charged with the handling of labor relations—that is, there were no personnel managers or personnel departments. There were about half a dozen corporations which had some form of employee representation. There were a few score of profit-sharing plans and a few plans for the sale of stock to employees. Both of these emphasized the sales force rather than the manual working force. There was no group insurance, there were considerably less than 100 mutual benefit associations. There was no unemployment insurance in any form. There was much irregularity of employment and no effort on the part of managers to offer steady work the year round. Scientific management was largely conceived of as a tool to get more work by methods arbitrarily imposed by management and without a commensurate increase in return to the workers.

The situation in respect to all these items and activities is now markedly changed. It is easy enough for any one who has a more or less definite picture in mind of an industrial Utopia which he desires, to point out the discrepancies between present conditions and his dreams. It is easy to conceive of the present amount of activity in the direction of improved labor relations as a conspiracy, as an effort to placate manual workers, as an effort to share a little prosperity as a sop; in short, as an intelligently directed drive to defend and buttress the present economic arrangements. Naturally also, the radical can read into this whole development a conscious effort to forestall and

prevent unionism and other spontaneous efforts of the manual workers to make gains in conditions and methods of negotiations on their own initiative.

One would be wholly lacking in realism who did not realize that a certain amount of deliberate intention and organized activity of a repressive sort has been behind certain of the employer efforts mentioned above. But to explain the amount of activity which all this change in the last 15 years represents as due to cool calculation, selfish motives, cunning foresight on the part of a little group of super-men, tends to give an unduly simple picture and one much too flattering to the groping, random, puzzled and experimental activities of a great number of scattered and baffled employers.

With regard to the judgment which one makes upon these activities a great deal seems to depend upon the point of view from which one works. Let me, in order to indicate that there are at least several points of view about the meaning of these activities, ask you to put yourself for a moment in the position of employers and professional managers who confronted the problem of the orderly conduct of their labor relations 15 years ago, and who quite naturally were watching and copying the experiments of other employers which looked toward the improvement of their relations with their employees. In such a position your question would naturally have been, "What can be done to make it more likely that the attitude of my employees will be somewhat more coöperative, somewhat more one of interest in the work which is being done and in the corporation from which they are getting their living?" As an employer you had to answer this question in one of three ways. You had to try to do something constructive; you had to let things drift; or you had to be willing to do something definitely repressive, fight and reap the whirlwind if it came. But the fact remains that our industries are now vastly better managed on the human side than ever before. Wages are higher, hours shorter, conditions

more wholesome, methods of adjustment more sensible than ever before.

The employers and managers of recent years have themselves not been unaffected by the trend of the times. They have tended to answer their question in a constructive way. They were more or less under compulsion required to institute a number of experiments during the war which were enormously educational to them and the natural result has been that since then a great many significant efforts have been made by managers to modify the worst conditions which they found and to improve so far as they could the attitude of their employees.

My first desire, therefore, is to set forth in summary fashion what these activities in recent years have been and to try to evaluate what the results of them have been. And these results are to be measured in terms of material gains to employees, in terms of educational or mental and spiritual gains to employees; and in terms of the educational effects that they have had upon owners, stock-holders, and managers.

May I ask that you try to view these activities, for the moment at least, not as a conspiracy but as the experiments of frankly puzzled and groping individuals who have found themselves charged with large executive responsibilities.

The activities are as follows:

I. *Personnel Departments*

In the management of industry to-day there are specially designated managers giving full time and attention to the conduct of all the numerous affairs which relate to the effective application of labor by the workers. Several hundred of the largest companies have extensive budgets devoted to the conduct of this work, and the personnel executives are definitely charged with the responsibility of keeping in the forefront of all managerial thinking the prob-

lems of the workers' attitudes and conditions. I make no extravagant claims for this development. I merely say that to an unprecedented degree factories and stores in this country are being run by people who are mindful of the rights, interests, desires and aspirations of the rank and file.

And I further point out that under any scheme of industrial ownership and control this type of executive consideration and functional organization would have to obtain. Indeed, in Government employment much of this work has already been taken over and copied from industrial management procedure.

II. *Employee Representation*

One special phase of personnel management has been the encouragement of organized group activity under which conference and negotiation could take place with employees in an organized way. In a certain few labor unions which have for some time conducted collective dealing with employees the use of some form of shop committee has been recognized as a sound part of the plan. This has been true in the printing trades and the garment trades where it was recognized from an organizational standpoint that it was sound structure to have a conference group at each level beginning with the shop, going next to the local district, then to the state, and then to the national organization.

The critics and opponents of employee representation offer it as an objection that these organizations have been almost 100 per cent. initiated by employers. This is true and it constitutes, for the present at least, a real limitation upon their power and influence. But a truly realistic analysis must admit that there have been many industries and literally many millions of employees who have not been organized and who have never had the benefit accruing from collective bargaining. The reasons why these millions of workers in many of the most important indus-

tries have been outside the unions are numerous. But they certainly are not all due to wilful and sustained suppression on the part of employers. It is in short almost as important to find out what power employees have under a given employee representation plan and how aggressively they are exercising it, as it is to find out who initiated the plan.

The facts seem to be that there are considerably over a million employees who participate in one or another employee representation plan in about 1000 companies. Approximately one half of these plans explicitly provide for joint negotiation on the terms of employment between management and men. And the tendency is to extend this feature in the plans already instituted. The attitude of modern managers is well reflected in the statement of the president of a large company to whom the problem was brought as to the extent of power over joint negotiation which he was willing to grant his employees in their proposed employee representation plan. He said, "Unless the plan incorporates a real conscious granting of power over the process of joint negotiation it will be a waste of time to bother to install the scheme."

May I make it quite clear that I appreciate fully that employee representation cannot bring about equality of bargaining power. Also I agree fully that equality of bargaining power is a fundamental condition of sound relations. But it does seem to me that where no union has ever entered or tried to enter and where employees have never had sufficient initiative to organize and affiliate with a trade union there is a substantial educational gain in the institution of a joint conference plan even if the employer initiates it. For the experience with these plans is conclusive that their educational value is tremendous for both managers and men and that they facilitate the negotiation of terms of employment and the prompt adjustment of grievances.

Moreover the development of some further interrelation between different company plans and the plans of the same corporation in its different plans, is just in its infancy; and I am confident that developments will take place here which will make these organizations look more and more like industrial unions which will also have paid representatives and a stronger bargaining position. Meanwhile they offer to tens of thousands of manual workers the town-meeting kind of experience in industrial government without which they would be fully ignorant and ill at ease if they were suddenly thrust into positions where they had a substantial majority of control in deciding important issues.

From my point of view it is as idle to disparage employee representation plans in comparison with trade unions as it would be idle to say that we do not need a state government because we have city government. Functionally viewed, the shop committee has its area of jurisdiction and the labor union has its area of jurisdiction. And they are complementary and not opposed.

III. *Stock Ownership and Profit Sharing*

The recent spread of plans allowing employees to share in profits has been little short of phenomenal. Several hundred companies are working along the lines of either profit sharing or stock purchase and in the last 5 years more than 200 companies have instituted some form of stock purchase for employees. Approximately 1,500,000 employees are owning or are in process of buying 6 million shares representing a total value of well over half a billion dollars.

There are many criticisms that can validly be brought against many of these plans and when a period of industrial depression comes there is no doubt but that their popularity with both employers and workers will be greatly diminished. Nevertheless under proper provisions for the protection of

the employees' principal and for giving employees who hold voting stock sufficient information on which he can cast his vote as a stock-holder intelligently, there is good reason to think that use can be made of this arrangement which will build up a situation of real financial partnership as between manual workers and other owners. There is to-day a marked tendency against absentee ownership and in the direction of having resident employees hold an increasing minority of the stock of many companies.

These plans represent also an implicit recognition on the part of employers that employees have a right to something besides their weekly wages out of the income from industry.

IV. *Group Insurance*

A rapid growth of recent years has been the group life insurance policies with which are now combined in a large number of cases the group health insurance policies. Between three and four million workers have their lives insured under group policies and perhaps one third of this number have also Health Insurance features which give them a benefit of somewhere in the neighborhood of $10 a week for from 13 to 26 weeks a year.

Pensions in industry have also extended to a point where nearly four million workers are covered in nearly 600 firms.

It must be understood that the worker loses all of these benefits if he leaves one employer and goes to another who does not have similar provisions against the industrial risks. Also they do usually create ties which bind the worker to one company in an artificial and restraining way. The coverage of these risks is thus by no means permanently assured for each individual worker and it would take a considerable extension beyond present developments to make coverage anything like universal for industrial workers.

But in the aggregate this activity does represent an

effective protection from anxiety and destitution for thousands and thousands of manual workers who could never have afforded to purchase the quantity of insurance and free, attendant service that the group basis allows.

V. *Provisions Against Unemployment*

The business world has for good business reasons been recently converted to a considerable extent to the advantages of continuous operation and the avoidance of irregular production. Company after company has undertaken elaborate measures in their selling departments as well as in their production organizations to stabilize the production curve from month to month throughout the year. A book could literally be filled with the recounting of the successful experiences with the steadying of work. This of course means from the workers' point of view the assurance of regular income and a greater annual income than is possible in the absence of this regularization.

There are several industries in which the idea of compensation to workers during periods of enforced idleness has been established. These include Chicago and New York market of the men's clothing industry, the Cleveland women's clothing industry, several local markets in the cloth, hat and cap industry, and single plants in a number of other industries. The idea is extending each year and the experiments are sufficient varied in method to supply eventually excellent evidence as to the type of unemployment insurance which will work best under American conditions.

This whole drive to get work on to a regular basis which minimizes seasonal slumps and assures steady employment is one of the most encouraging evidences of what can be done by persistent educational work among industrial managers. And the fact that it happens to be good business in no way detracts from the equally important fact that it is a splendid thing for the employees involved.

VI. *The Changing Uses of Scientific Management*

The idea that wages should be paid not merely for the time spent at work but in more definite relation to production seems simple enough but it has gained headway very slowly. When anything but old-fashioned piecework is done, payment for production can only be undertaken satisfactorily when production methods have been studied and measured. Under scientific management as it was first applied this studying and measurement of production took place under exclusively employer control. And there is no doubt but that its use was abused at the start. In the last few years, however, there has been a notable development of experiments where the whole determining of production standards as they are called has been under a joint supervision of either trade unions and employers, or shop committees and employers. And the outcome has been that the use of scientific management methods is now going forward with much more satisfactory results to all concerned. I might well take considerably more time than is possible to set forth the educational values for the workers which their sharing in the determining of production standards has brought about.

This intentionally colorless statement of the activities in the various fields of personnel effort can give one little if any picture of the real psychological changes in the kind of experiences which managers and workers are having as contrasted with the experiences and attitudes of a dozen years ago. But I can assure you from my own close study of these matters that the character of the experience which is now taking place is immensely valuable not merely because employees are assured greater material comfort both at work and at home, but because there is an educational process going forward which is the indispensable condition of all the individuals involved becoming informed citizens in the industrial community.

I can assure you that both managers and men are as a

result of all present personnel activities learning the point of view and the problems of the other parties to industry. They are learning how to work together without animosity. They are learning that to a certain extent they have different purposes governing their activity in industry, and that if they want to work for identical purposes this can only be done when employees and managers see that it is to their interests to modify their objectives.

You may object that all of this experience is of a character diametrically opposed to that which you would like to see the employees subjected to. You may say that only as they become more definitely conscious of the conflict of interests as between owners, managers and men, will they do what they should to (I am borrowing a familiar phrase) "take over industry."

My answer to that whole view of the matter is that American prosperity is too widely diffused to make such a conflict possible. Our people recognize too fully the fact that managers, technicians, and manual workers are all indispensable to industry; and that the function of saving and credit-issue, although it may be too highly centralized to-day, is a necessary function which it requires a competent intellectual grasp to carry on. In short the process by which America is destined to go on industrially in the next 50 years is not one in which there is any possibility of an abrupt change in the form of the organization, the nature of control, or the exercise of economic power. Undoubtedly the form of our economic organization and the location of control and power will shift and it may shift drastically. But just how this transition will in practice be affected by the influence of the ideology of a class struggle I confess I cannot conceive.

Differences that arise between what I may perhaps be allowed to call the radical and the liberal interpretation of present employer activities in the field of personnel, seem to me to grow largely out of a difference in view as to *the way in which democracy is achieved*. I am very

clear myself that if democracy in industry is ever to come it will not be by the storming of any battlements. I agree heartily with the economist who says, "The control of industry requires not so much to be wrested from a band of supermen as to be painfully built up out of the clay of man's ever changing technical achievement."

It cannot be repeated too often that the attainment of democracy *is an educational process*. And that self-government is only good government when the selves involved have self-control, knowledge, intelligence and good will. Particularly in the modern economic world with its tremendous complexities democracy cannot come full blown or all ready to wear. It cannot come in the absence of actual experience by millions of men and women in grasping the knowledge necessary to exercise intelligent control. Indeed, the whole problem of an improved organization is one which has to be solved not a priori but experimentally. And the activities which I have been talking about are some of the experiments which are the indispensable first conditions of going toward a democracy.

Another objection which naturally might be offered is that in many cases where the workers are trying to negotiate favorable terms of employment they are bound to be defeated. I regret that this has happened already and will happen again. They will confront all sorts of cajolery, obstruction and frustration in their efforts. But it is certainly better that they try and get blocked than that they never try at all. The very experience of being blocked is itself highly significant and valuable as an educational influence. Only so do employees ever realize that they are up against forces which require of them organization, vigilance and determination on their own part. *Indeed, I see no other way for this lesson to be learned.* The occasional resistance of employers will be needed to give employee groups any real stamina, confidence and realization of the need of effective bargaining power.

Again I think radicals would be more tolerant in their

estimate of the present activities of employers if they would realize quite frankly that democracy in industry has got to satisfy a number of demands which again cannot be attained at a jump but which must be carefully built up in the brain paths of millions of people. We have to realize that whatever is done toward bettering industrial organization must not impair the productivity needed to keep 115,000,000 people provided with the necessaries of life. We have to remember that modern industry cannot be carried on without orderly and regular habits and a reasonably conscious application of people's minds while they are working. There must be executive direction which employs a high order of intelligence. There must be unified control and there must be the machinery which secures prompt decisions and assures prompt carrying out of decisions. These requirements are not inconsistent with democratic organization; but the necessity for assuring them is frequently lost sight of by many who are interested in forwarding the growth of democracy.

There is one big question which this whole discussion raises which should be frankly faced. If all the present activities which assure the present prosperity and the current heightening of the material comforts of people dull their interest in self-determination in industry, will a wholesome state of affairs be brought about? Put another way, may prosperity be the enemy of democracy? The answer to this question seems to me to be clearly "yes." But we are confronted with a condition and a tendency which seems as irresistible as the tides.

It would be a bold man who would suggest that it would be better for this country to have a succession of Passaics rather than a succession of intelligently run plants like Dennison's or Hart, Schaffner & Marx, or many others which might be named. Most people would agree that there is no issue here, that we have to go on acting as intelligently and as humanely as we can with and through the processes of industrial reorganization. Whether or

not, as industry is more intelligently organized in another generation, there proves to be less democracy than there is to-day characterizing its operation, is not a question for us to answer. It is rather a problem of the spiritual integrity of the next generation. I suspect, however, that it will be found as experience develops that *intelligent organization and a reasonable degree of democratic organization in industry will come to much the same thing*, and be two different ways of saying the same thing.

If it proves to be true that prosperity militates against certain familiar forms of working activity and organization, it will undoubtedly prove also to be true that some other type of organization or activity will grow up which will perform the same essential function, *if that function is really an essential one.*

The test that I should like to see applied in judging of the activities here under discussion is largely an educational test. To the extent that they are fostering opportunities for growth in knowledge, power, insight, and aspiration, to that extent these activities are worthy and should be encouraged. The processes of industry in creating arrangements through and by which more democracy in industry can operate, *must be educational in character.* Or they are vanity and ashes. And I find most of these activities in practice to have great educational value.

Finally, I appreciate that there are certain other big problems which must be taken account of in making industry more democratic, which the activities here under discussion do not touch. To get a complete picture we should have to consider the relation of this problem of personnel management to the question (1) of power over the function of credit-issue, (2) of its relation to the intelligent organization and knowledge of demand, (3) of its relation to the problem of consumer organization,—since you will realize that most of my discussion has been in terms of a producers' democracy.

I am not claiming, in short, that a millennium is soon

coming out of the new tactics of employers. I am contending, however, that these tactics represent the setting at work of a number of educational forces the like of which have literally never been seen before. And I am clear that whatever industrial democracy may turn out to be if and when it comes, it can only arrive if it operates through the efforts of an informed and understanding electorate—an electorate brought to understanding by the kind of participation in affairs which is made progressively possible by the extension of the kind of activities here under review.

General Discussion on Employers' Tactics

The Company Unions at Bayonne

Mr. Budenz: I should like to give a very definite picture of a Company union which, on the surface, looks to be all that Mr. Tead has pictured the general company union to be, but when examined proves to be nothing but camouflage and a snare and delusion for workers. From that experience along with others it seems to me that most of this talk about industrial democracy put out by the employers is nothing more than what we see in this beautiful plan I should like to call your attention to, and that is the Rockefeller Company Union, one which has been widely advertised as a splendid example of the Christian spirit of those who have conferred this great gift upon the workers and which is accepted by industrial and efficiency engineers as a splendid example of what might be done elsewhere.

What do we find when we look the situation in the face? We find absolutely no extension of democracy, but an extension of slavery. In fact, employees of the Standard Oil Company of Bayonne, wishing to meet with the workers in the other oil companies, are forbidden to by the Constitution of this democratic company union. In other words, the employees of the Standard Oil Company are

forbidden to meet or talk about company conditions with the employees of the Tidewater or the Vacuum Oil Companies located in the same city and owned by the same company. Vacuum and Tidewater are merely other names for the Standard Oil. It owns 40 per cent. of the Tidewater stock and controls its policy and owns almost all of the Vacuum.

To show how this works out, the employees of these oil companies wish to get an increase in wages. They have been trying to get it for two years. We have tried to present the thing to the company union assemblage. One worker got up and tried to express himself but he was so intimidated by the Manager, acting as Chairman of the meeting, that he said, "It is all in here but I can't get it out." Finally the workers were told that they would get this demand considered when it came up to Mr. Rockefeller. And on the evening when the company representatives were to meet with Mr. Rockefeller he became ill and he couldn't consider the demand; for two years he has been ill so far as the workers of Bayonne are concerned. It seems to me when you look into these other schemes you will find the same situation.

MR. BLOCK: I should like to ask Mr. Tead about the remark he made that in some instances these companies' insurance schemes were repressive, inasmuch as they made it necessary for a worker to stay with one firm in order to get the benefits of the scheme. Putting aside the insurance in the garment industry, I should like to know if there is any one insurance scheme in operation which is not so repressive, that is, where the worker would not lose the entire benefit of the insurance by leaving his employment, by striking or otherwise?

MR. TEAD: The answer is, I think he loses the employer's share in the contribution, if it has been a contributory plan, but retains his own share or interest. Or with group

insurance he can convert it into individual insurance at a fair rate at the age at which he resigns or is discharged. The new pensions are on an annuity basis so that any time the employee leaves he has accrued annuity of a certain value which goes to him.

MR. BLOCH: If that is with individual insurance companies, then he would have an individual policy?

MR. TEAD: The only company which is doing a big business of that sort is the Metropolitan.

DR. LAIDLER: May I ask Mr. Ripley what, in his opinion, has been the value to the worker of the plans of the General Electric Company in the last two years, and what has been the effect of the workers' relations to the trade union movement in the plant?

The General Electric Tries Welfare Work

MR. C. M. RIPLEY, Public Relations Department of the General Electric (Schenectady): The effect on the worker of these activities (when I say activities I do not include company unions) has been to make the pay envelope go further.

I made a note early this morning of some of these things that have been going on. The first is on the subject of the labor spy. I want to tell you a story about an incident that happened in a saloon in New Orleans when I was down there to give a talk to the International Brotherhood of Electrical Workers. The President of the union was speaking to the delegates at the convention and he said, "By God! in the twelve years I have been connected with the Schenectady labor movement there hasn't been a strike in a big electrical factory where anything has happened worse than a bloody nose. Why is that? We had a central committee appointed to maintain order and they did it."

I was talking to the Vice-President of the General Electric and I told him the story. I said, "Douglas was really proud of that record and you ought to be just as proud of it as he is because you never fell for the general pigeon stool stuff and *agents provocateurs*." And a very nice expression came over his face and he said, "Well, I guess in their heart of hearts, they don't believe in violence."

In regard to the company union, I want to pass that all up to Robert Bruere. You know him better than you know me. Perhaps I am prejudiced. As a matter of fact I don't know anything about the company union. Bruere described a company union at West Lynn in complimentary terms in the *Survey*.

The General Electric are pretty liberal on this subject. They invited William Green to broadcast over the big radio station WGY, for an hour on the subject—"Company unions, are they democratic?" He came to Schenectady and gave that talk. Robert LaFollette was invited to give a speech over the radio, which he did.

At that time Mr. Emmons saw me with a LaFollette button on and he said, "What is that?" I said, "A very beautiful button by a famous sculptor."

He said, "What are you wearing it for?"

I said, "To show my friends inside the General Electric and outside that you can be a corporation employee and still think your own thoughts, that this big General Electric Company is not trying to crowd any political views down our throats. We can think as we please."

He said, "I guess you are right."

As to what this company does and what it doesn't do, that is pretty hard to tell.

They have 76,000 employees in factories, in offices, including sales, manufacturing, engineering, patent law and other departments. We have factories in forty different cities and we have home rule. The Works Manager in the city is boss of that factory. In some cities we have a lot of union men. In some cities we have employee rep-

resentatives and not much union, in some cities both, and in some cities they have neither. You can't make any sweeping statement.

Now as to these activities that were mentioned by Mr. Epstein last night. Most of those activities were continued when the plants were pretty strongly unionized.

I feel humble when I come to you people from the big cities because Schenectady has only 85,000 population but as far as living in an atmosphere of trade unionism and socialism, Schenectady doesn't take off its hat to larger cities.

During all this time activities spoken of by Mr. Epstein have been carried on. If you want to say they were carried on to discredit the union, that is your opinion. Personally I don't think it is true. Incidentally, Schenectady never had the employee representative plan, the company union, until one or two years after the unemployment debacle of 1920 or 1921.

These things mentioned by Mr. Epstein make the pay roll go further. The spirit of the company, as I see it, is to help the workers to help themselves. They want to get up a mutual benefit association. All right, the company doesn't give any money to it but they let fellows take time off to collect the dues of twenty cents a week. I am going to outline a lot of contacts between management and men which is education both ways. One of the troubles is that the straw boss can misrepresent the workers' point of view to the managers, and misrepresent the managers' policy to the workers. Many times they have the President, Vice-President or Chairman of the Board give a little talk and interpret this or that problem, the latest research which has been made in the field of electricity, etc. I will take up some of these activities very briefly.

In the Mutual Benefit Association there are thirty thousand employees who pay either ten cents a week or twenty cents a week for sick benefit and funeral expenses. The company pays the administration expense because it lets

people volunteer their time to collect the money and administer it. There is not a single employee of the General Electric devoting all of his time to the Mutual Benefit Association.

Insurance—A Metropolitan Life Insurance policy of from $500 to $1,500. The same employee who gets that is given the opportunity to subscribe and pay for himself for $2,500 at a low rate and no physical examination for either kind of policy. So the rank and file worker can subscribe for nearly twice as much insurance as he gets free. Dr. Steinmetz said the four great fears were sickness, accident, indigent old age, and unemployment. The Company appropriated money during the last unemployment for building machinery for stock and adopted a policy of carry out enlargements and improvements during slack times.

On only one occasion that I know of, in 1919 or 1920, was stock offered to the workers. A dollar a week was deducted from the pay envelope for each share of stock. Five million dollars worth of stock was purchased. It cost the employees $112 a share each. Those same shares to-day would sell for $320. We would like to have another one on the same basis. I don't think we value highly the power of voting at the stockholders' meetings. All we do is sign a proxy.

Employee bonds—You sign up for a $50 bond and a dollar a week is taken out of your pay envelope. You can't spend what you don't get and it is an easy way to save. These bonds pay 8 per cent. to the owners and many million dollars' worth of those bonds have been purchased by the 76,000 employees.

Pensions—The pension is proportional to this simple figure that any employee with a thirty-four year service record who has reached seventy years of age, will receive a pension of 50 per cent. of his average wage for the last ten years. If an employee with twenty years' service is

totally incapacitated, he gets a pension depending on his years of service.

Vacations with pay—Office workers two weeks with pay; shop workers with ten years' record, one week vacation with pay; shop workers with a twenty-five year record, two weeks with pay. I have been told that very few industrial plants give the workers any vacation with pay to the rank and file of wage earners.

Hospital, dental clinic and ex-ray free. That makes the pay envelope go further and it saves time. Instead of going uptown he goes around the corner.

Restaurants—Three at Schenectady that serve over three million meals a year. If they lose anything on the food that is made up on the candy and cigar counter.

Library—Everything but fiction. If they haven't a book which you want, they will buy it or borrow it from the City Library or the national library at Washington. I ordered Stuart Chase's "Tragedy of Waste" and they bought it. Magazines can be purchased at each of the principal factories.

Recreation—Everything that Mr. Epstein mentioned and then some.

Education—Night classes and day classes on company time for college graduates, for high school graduates and for apprentice boys who didn't go to high school. Classes in business administration, accounting and commercial law, stenography and typewriting, drafting and metallurgy; night classes in public speaking and chemistry; leave of absence for college training.

Safety—It is thirty-three times more dangerous to fish for a living than to work in the Schenectady factory. The Government statistics show how many men are killed every year fishing and there are twenty thousand employees at Schenectady and but two deaths last year.

Information—Mr. Owen D. Young told me, "Let's tell the truth and if the truth makes us trouble, then let's have the trouble." My job is to give information about

the company to the employees. In the field of public relations you will remember the statement, "The Public be damned." In the field of internal relations one of our officials some years ago when I told him the employees wanted to know such and such a thing about the profits said, "It is none of their damned business." Now Mr. Young dictates the policy as above.

I stated, and it was printed in the *Wall Street Journal* and several manufacturing organizations, that the labor unions and Socialists too are eagerly, honestly and earnestly seeking the truth regarding industry. Someone said that actual statistics for working men were as scarce as radium and Louis Brandeis said more erroneous conclusions are due to lack of information than to errors of judgment. If the management says, "it is none of their damned business," how can they form correct conclusions? Goethe says, "Give light and the people will find their own way." And my rule in getting up any article or speech to the employees is that I won't give them anything that I wouldn't give to Socialists or the I. W. W. or the A. F. of L. audiences, or Socialist, I. W. W. or A. F. of L. magazines. On the bulletin board you will see how the magazines printed that stuff and I have a limited amount of literature here from such sources, which I hope you will take as far as they go after the meeting is over.

Concerning the Class Struggle and Related Matters

Mr. Flanzer (New York): We have had a very beautiful picture painted for us, and for the last few sessions. This afternoon we have seen another picture and that is the downward trend of the trade union movement in America. According to an article in the *Nation*, the American Federation of Labor since the war lost over a million members. Of course with the methods the General Electric is using in giving vacations, etc., that is bound to happen.

Mr. Fisk, the President of the Metropolitan Life Insurance Company, has discovered the way of doing away with the labor struggle, with strikes and lock-outs, by simply introducing group insurance, which of course is given to workingmen regardless of examinations. But the gentleman who spoke previously forgot to tell us that this held true only up to a certain age. Group insurance has for its purpose keeping the workingman from going out on strike. There is a reason. Mr. Fisk, himself, while he preached the doctrine of doing away with the class struggle, increased the debits of the company's agents, reduced their commissions, and refused to permit the existence of unions.

For the last twenty-five years Socialism has fought for what the people have now and what they have not lost as yet. Judging from the new happy scheme of welfare work, they are soon going to lose everything. But when that time comes the class will come into its place and the working people will gain their rights, but not through the employers.

QUESTION: Doesn't Mr. Tead think the most hopeful sign of company unions is they are going to die a natural death? Let me illustrate a particular company union.

One of the oldest company unions is that which exists in the lumber districts in the west. A study of wages has proved that the company union has no influence on wage scales nor wage scales on company union.

The workers have found that if an active delegate gets to be a delegate to the convention, they refuse to give him railroad fare, so he can't go. If he is active enough to go and pays his own railroad fare, they put him next to his foreman or employer in the convention hall, so he doesn't dare to say very much.

The company union is gradually declining because the employers are no longer actively interested. I am wondering if that same thing isn't going to happen in all company unions. In the lumber district there has been no attempt

to organize for some years and now they are fearing unionization and giving up the company union plan.

DR. WILSON (New York): The company unions are real, hopeful signs of the times. I believe Mr. Tead and most of the companies, or at least a good many of them, have real human feelings for their employees, even if many others are selfish. I mean they want to help the employees so as to make better working men out of them. They want to make them more comfortable and healthier so that they will work longer. I believe that is also good. After all we have no object but selfishness; it is part of our make-up. We are suffering, have been suffering and probably will continue to suffer for many centuries because of uneducated selfishness, because we don't know what is good for us. We think certain things are good for us, but they are not. Now if the captains of industry begin to realize that, in order to improve industry, they have to take better care of their employees, all the better. I believe the time will come, of course not in our time—it may take many centuries—but the time will come when a real, intelligent person will not wish anything for himself that he would not give of an equal amount to another. And perhaps instead of the so-called class struggle we may accomplish something more in very peaceful meetings.

DR. LAIDLER: Are there any company unions, may I ask Mr. Tead, that have war chests that might be used for strikes in case the demands of the workers for higher wages were turned down by the employers?

MR. TEAD: Not that I know of. There are among such unions a number of paid representatives, however.

MR. DUNN: Not a very large number.

MR. ERVIN: Isn't the whole matter a question of competition? Isn't it a fact that if company unions give

workers more than what we call the legitimate unions, the company unions will win? Isn't that the whole crux of the matter? It is all right to talk against them, but the most effective speech I know about the company unions is for the legitimate union to give service that the company union can't give.

MR. DAVID MIKOL: The fur workers can very easily put the company union out of business. If the fur workers would insist that there should be a union label on the skin they could bring this about. This conception of union labor does not depend upon the consumer. It depends entirely upon the worker. He should have some way of identifying the material he is working on, of showing that it should be union made. The unions will understand the importance in this particular industry of fighting the company unions by using the union label on skins, thereby organizing the dyers and dressers and also increasing our capacity to control the industry.

CHAIRMAN THOMAS: I think there are one or two things that might be remarked in view of the few minutes that are left, to clarify some of the discussion.

If I remember Mr. Tead's use of illustrations, he grouped without much distinction types of company unions and employee representatives which are really considerably different, as he would admit. For instance, it was a very different thing to have a certain form of shop organization in Hart, Schaffner & Marx and to have that same form of organization in, let us say, Arthur Nash's Golden Rule Factory before he recognized the union.

You have, I suppose, what is in a certain sense in line with Company unionism in the B & O plan. You may be for or against the B & O plan, but it is not the same plan as if there were no national union working there. I think in any discussion of that matter, that distinction ought to be borne in mind.

One of the subjects that ought to come up for discussion at this conference is whether we aren't too ambitious in trying to have three sessions in a day. There is just about time to let Mr. Dunn sum up.

Some Questions to the General Electric

MR. ROBERT W. DUNN: I am glad that the representative of the General Electric Company is here and that he has made a statement from the point of view of management with respect to general welfare features carried on at that plant. All I could say, and it sounds quite like friend Charlie Ervin, is that, if we had a union, and, of course, a very large one in the case of the present situation at Schenectady, and other places, we could give the workers all those things and we think we could give them more efficiently and with more freedom and with more real responsibility for the development of their spiritual powers than any one company, because of the fact that the labor situation involves a number of companies in the same industry.

We feel that no one company can ever solve this problem by the most attractive form of shop committee and therefore we are against them and we would like to put in, in their place, the industrial type of union I spoke of.

But any kind of union I think is better than a company union and I did scratch down, like Mr. Ripley, a couple of points this morning that I wanted specifically to address to any one coming here from the General Electric Company because I am not satisfied with Mr. Bruere's article as an answer to certain questions.

Mr. Ripley did mention the fact that in the company magazines certain interesting economic information was given. I want to ask him if a trade unionist in Schenectady, a rank and file member of the union, should address a letter, or send an article to the company magazine criticizing the company union or not, it doesn't matter, but

advocating trade unionism and all that it implies, would that be put into the company organ alongside of the articles on how to celebrate Roosevelt Day or something like that?

But more important than that, if a trade unionist in the General Electric Company is found agitating on company time, and I know of no labor union that can be organized unless some of the company time is used up in speaking to the workers in the shop, not outside somewhere in a boarding house, would that trade union member be permitted under the present disciplinary rules of the company to maintain his position as he certainly would in most organized plants where there is leeway given for that sort of business?

Another thing, suppose the workers in one of the General Electric Plants should start a paper of their own, such as we now have circulating in many plants of this country, and should give it out at the door of the shop, or distribute it within the shop, would they be permitted complete freedom to carry on that paper? And then I want to ask him a practical question. Do you believe that the inside representatives on one of your shop committees is likely to know as much about the general condition of the electrical industry prevailing throughout America as the better sort of trade union official?

Finally I also want to state that I have information from persons who live in Schenectady, and they are not trade union officials, that there have been victimizations of workers for union activity within very recent months. And I want to ask him if that is the policy of the company. That, of course, ties up with my first question as to whether an agitator would be put out of the plant.

Now as to the general position of Mr. Tead. I think we disagree pretty radically on the approach to this subject of a company union. Boiled down, his proposition is that these various services including the company unions which are introduced, are of a general educational value to the workers in non-organized industry and he throws it up to

the trade unions actually—Why don't you go in there and organize?

Well, of course, I have to take about the same position, too, and be a trade union critic, as was indicated in my paper, and take the same position as all the trade unionists do, that the organization of workers in trade unions in this country is a very large job. But we believe that when we get around to organizing company union factories, we will have to blow up a great deal of this which they call sound economics—for I believe we consider it false economics,—that is being driven into the minds and the brain channels of these workers who are reading the company magazines, sitting in the company union committees and listening to the personnel managers deliver speeches and so on. We contend that the experience that a worker gets in making any kind of an effort to get a trade union, such as they are now making in Passaic to-day, even if it involves a long and costly strike, is more valuable in the development of real representative government, real freedom, because, as he admits, there can be no equality of bargaining power under the shop committee plan without a union. We think there will be more real values of that general spiritual kind he dwelt so much on, come out of any union activity than would come out of this superinduced, cultivated kind that the employer can put out with a string on and pull back when he feels like it, for none of these community plans have substance in law. The pension plan can be withdrawn at any time. The workers have no legal right to pensions although they may have been lured along for years to believe that they are going to get one. But if the company should go over to another company and that company didn't want to continue the pension policy, the pension plan would be dropped.

But after examining the company unions all over the country, consulting with trade unionists and others about them, and talking to the workers and looking at about

everything that has been written on the other side, including some of the more forceful and modern statements such as Mr. Tead gives, I feel that, when we come right down to the point, the group that is going to deliver the goods in the form of wages and hours and conditions, and is going to give real power to the workers, is the kind of an organization we want and that is summed up in the trade unions.

CHAIRMAN THOMAS: I am going to tell Mr. Ripley that Schenectady has a college called Union, which is one of the very few colleges in the United States in which the L. I. D. has been unable to get representatives under any pretext and for any kind of speech. I am going to tell Mr. Ripley that I have spoken in a good many towns in New York State. But the worse scared bunch of workers that I ever saw during the LaFollette campaign was on my second visit to Schenectady after the layoff had begun, due to hard times. They may have known they were free but they were scared out of their boots about going to a meeting. It is very unfortunate that your Company plan doesn't let your people know how free they are.

MR. RIPLEY: When LaFollette was there the biggest theater in town was jammed to the doors.

Would an article be printed in the organ of the company, criticizing the company union? Didn't I already tell you that Mr. William Green was invited to broadcast over WGY, criticizing it?

MR. DUNN: Mr. William Green, according to the New York Edison Company that doesn't have a union member in its plant and has fought labor for twenty years, according to its description to the non-trade union delegation that came to this country, is a household word with us. Mr. William Green can be brought in before any Rotary Club or any group of business men and talk about anything he wants to. I was asking if a real rank and file worker, a

roughneck Bolshevist like me, wrote an article for that magazine, would you take it?

MR. RIPLEY: Of course I am not editor of this paper. If I were editor I believe I would print it. And as far as firing fellows for union activities or victimizing them, I am not Works Manager. But I wouldn't fire them if I were. As for me, I am trying to give information on what is going on and I am not expressing my personal opinion.

CHAIRMAN THOMAS: Let me add to your information by telling you that I know one of your engineers who has to be mighty careful about giving out interviews favoring public ownership.

SECTION IV. THE SWEEP TOWARD INDUSTRIAL COMBINATION

STUART CHASE ON "MERGERS AND THE NEW COMPETITION"

ON Saturday evening, "The Sweep Toward Industrial Combination" was analyzed by Stuart Chase, a director of the Labor Bureau, Inc.

MR. CHASE: Fashions in trusts change as do fashions in skirts, although it is to be noted that while the latter are abbreviating the former are tending to elongation and expansion. The good old swashbuckling horizontal trusts of the gay nineties—or as Thomas Beers has it, of the Mauve Decade—the trusts to whose undoing Senator La Follette dedicated his life, are giving way to new forms, new methods, new techniques. Even the terminology has changed, and to-day financial etiquette demands the word "merger" to replace the antiquated "trust."

Adequately to analyze and explain the changing fashions in trusts and mergers since the beginning of the century would require untold research, and Heaven alone knows how many fat volumes. Great as is my love and devotion to that paragon of program makers, Professor Doctor Laidler, and gladly as I have nailed myself to his paper crosses in the past, I capitulate before this task. I do not know, no man knows—least of all the merry merger makers themselves—the essence of the story. All that I can hope to do is to describe a few general tendencies, quote a few summary figures, and enumerate a few general conclusions, which, lacking an adequate body of underlying research, can amount to little more than reasonably intelligent speculation.

The New Fashion in Mergers

Senator Walsh recently introduced a resolution into the Senate calling upon the Federal Trade Commission to make an exhaustive study of the whole merger situation. I wish I might come before you with a copy of that report in my hand. Then indeed I might say something worth listening to. But one suspects, things being what they are, such a report will continue to be a purely mythical one for some years to come. The majority at once of the Senate and of the Federal Trade Commission, has a clearer conception of its duties than in the unhappy days of the meat investigation. In his resolution, however, Senator Walsh helps us by clearing the ground. He describes certain new forms which mergers are taking and enumerates specific examples. He quotes Mr. A. F. Myers, Special Assistant to the Attorney General, as follows:

"Notwithstanding all the years of legislation on the trust problem and all the years of legislation in enforcing anti-trust laws, I think it must be recognized that we are just on the threshold of the trust problem. You cannot pick up a paper without reading of some merger in business; and unless it appears that the merger would result in *restraint of trade within the decision of the Steel case,* or unless it is brought about by stock acquisition which results in elimination of competition between two companies within the meaning of section 7 of the Clayton Act, there is not now any legislation covering the situation. Congress did regulate on the subject of mergers in section 7 of the Clayton Act when it provided that no corporation engaged in commerce should acquire all or any part of the capital of another corporation where the purpose or effect might be to eliminate competition. But we find in practically all these recorded instances at the present day that the companies buy not the stock of each other but the *physical assets,* and that of course takes the transaction out of section 7 of the Clayton Act."

In other words, instead of a holding company acting as trustee (hence the name *trust*) for the stocks of subsidiary

operating corporations, and thus hushing up their naughty competitive squabbles, the new fashion in mergers is for one operating company to buy the physical assets of a competitor, and of another, and of another, thus accomplishing the same result, without ever coming into conflict with the anti-trust laws.

Then we have new forms of mergers in the growth of so-called vertical trusts, where a large manufacturing company—such as Ford's—reaches back to control its raw material and transportation and reaches out to control its distribution. We have, as Mr. Soule has already admirably made clear, the growth of a whole new financial technique around the principle of issuing no-par-value common stocks, whereby the investing public pays the total cost of the tangible assets acquired, while the insiders pay nothing, but with their series X voting and management shares, control the whole enterprise and take the cream of the profit. There is in fact literally no end to the ways and means which learned counsel have devised for aiding and abetting the principle of merger, while remaining safely beyond the lariat of the Clayton Act.

Which is all doubtless very distressing. But before I, for one, do much viewing with alarm, and writing to the newspapers, I want to know the answer to three further questions:

First: Do mergers, new style, result in a net social saving by reason of operating economies which are always potential and often real?

Second: What are the changes in the functioning of the business structure itself which result in such a rash of mergers, near mergers and alleged mergers? How fares competition to-day?

Third: Despite all the smoke how much fire actually remains? What proportion of the going economic structure is interpenetrated with the merger principle?

Alas, there can be no clear answer to these questions until the Federal Trade Commission, or some similar body,

makes its investigation. All one can do is to hazard certain crude generalizations.

Size and Efficiency

When I was working for the Federal Trade Commission in its examination of the so-called beef trust, I had it very clearly borne in upon me—in the face of certain emotional preconception—that sheer size was no earnest of efficient operation. The packers had spread themselves out too thin; had gone into too many side-lines—from grape juice to winter wheat—and as a consequence, were operating certain sections of their business wastefully and unprofitably. On the other hand as I read Ford's new book—*To-day and To-morrow*—I see an organization as large as the Big Five packers combined, operating not as a horizontal but as a vertical trust, which has made, is making, and I venture to say will continue to make, operating economies, short cuts, better and cleaner technical ways of doing things—which stagger the imagination; which make one wonder in irreligious moments whether we wouldn't all be better off if we resigned the industrial system to a dozen Fords, and let them run the works. My generalization is, that you cannot generalize about the economics of mergers or the economic inevitableness of mergers, as a total phenomenon. It depends on management, the kind of product being manufactured, the level of the technical arts attained in the particular enterprise, in labor-saving machinery, in a hundred things.

The New Competition

As to the second question, a recent article by a prominent banker in the *Nation's Business* lets in a little light. The article is entitled the *New Competition*, and the author knows what he is talking about. He outlines the great changes which have come over the day by day performance

of American business in the last generation, particularly in the last decade, and how competition has at once expanded widely, and forced the development of mergers to relieve the pressure. But such relief still bulks small against the surrounding pandemonium of high pressure salesmanship, national advertising, installment buying, and Florida land booms.

The analysis of Mr. Cheney, our banker, is worth careful attention. The new competition, he says, operates through five main channels. The gist of his argument is as follows:

In the good old days competition used to run between businesses on the same horizontal plane. Lumber mill competed with lumber mill, railroad with railroad, shoe manufacturer with shoe manufacturer, wholesale grocer with wholesale grocer, drug store with drug store. It was a knockdown and drag-out fight but at least you know whom you were fighting. It was that short changer Thomas in the next block. Nowadays you still have to keep an eye on Thomas, to be sure, but God knows where all the other bricks are coming from. (I am translating Cheney accurately but freely.) The skies are full of strange new thunderbolts—group advertising, trade association drives, installment contracts, resident buyers, chain stores as impersonal as weighing machines, house-to-house canvassers, high pressure mail order methods, boomers, boosters and yodelers for this and that, "endless chain" artists, the higher merchandising in a thousand forms.

The reason for this hullabaloo is not far to seek. Due to the steady excess of profit over wages in the past generation, the industrial plant of America has been very greatly overbuilt. There is at present capacity to produce one hundred per cent. in excess of normal demand. Purchasing power has not been released fast enough to absorb the potential production within a vast margin. Increases in the technical arts only tend to aggravate the difficulty. This excess plant capacity presents a grave problem to the busi-

ness man, whether he be coal operator, textile manufacturer, or distributor. It is intolerable to see idle machines and idle space eating their heads off in depreciation, interest, insurance, taxes and overhead generally. Something has got to be done. Outlets have got to be found to keep the machine operating on an economical balanced load basis. The fact that the purchasing power simply is not available to keep the national industrial plant—considered as a whole—operating on such a basis, worries no industrial business man, and no individual industry. The spellbinders of success and personality, and you-have-it-in-you-send-no-money-but-clip-the-coupon, have driven their lesson home. The individual business man has no conception of a national economic synthesis to begin with, and if he did have it, it would still be his pleasure and duty to get on his toes, go into conference, pump up his blood pressure, and he-man enough purchasing power in his direction to keep all *his* machines busy. The reductio ad absurdum in national economics is utterly irrelevant from the standpoint of practical business. And as we all know, we would all starve to death instanter if practical business were not in full control. The good Coolidge can hardly sleep of nights for thinking up ways and means for making practical business even more practical. It is a consecration beside which those of church seem feeble indeed.

To come back to Mr. Cheney. Excess plant capacity has intensified the struggle for outlets. This "distributive pressure" as he terms it—and the phrase is a happy one—gives birth inevitably to the new competition, the higher salesmanship, in all its forms. Production is relatively easy, distribution is the tough job. The best brains, the most thought, the most money, concentrates on ways and means for sales outlets, and the five channels of the new competition swell and grow.

The first channel Cheney calls *Intra-Industrial Competition*. Instead of the old horizontal competition, suddenly wholesalers, who are vertically removed from retailers,

start opening chain stores and begin to compete with retailers. Retailers retaliate by organizing a wholesale buying association of their own. Manufacturers compete with wholesalers by selling direct to the retailer, and compete with the retailer by selling direct to the consumer. Wholesalers and chain stores and groups of retailers compete with the manufacturer by starting manufacturing plants of their own. Meanwhile manufacturers compete with raw material and supply houses, by adopting the vertical trust technique and buying up their own natural resources, operating their own raw material and supply plants. They may, like Ford, compete with the going transportation services by means of their own railroad and steamship lines. Thus the whole horizontal competition scheme has been turned upside down and inside out.

The second channel is *Inter-Commodity Competition.* As an ultimate consumer you are sick of paying rent and want to make yourself sicker by building a house of your own. The realtor boys have sold you the wife and kiddy stuff together with an elegant site in "Applesauce Acres" —where Cozy Comfort Klings. It is announced that you are thinking of building. From now on may God have mercy on your soul. The National Lumber Dealers' Association arrives on the scene with the Face Brick Association only half a lap behind. The Purple Quartz Building Stone Fraternity lands in an aeroplane. And your roof develops into a bloody struggle between the National, Rosy Fingered Shingle, Sewer-Pipe Tile, Sun Drenched Copper, Hullilujah Asphalt, Serenely Zinc and Tar Associations. Who ever heard of one lumber dealer doing anything else to another lumber dealer save pasting him in the eye? Now they kiss each other. And form a trade association wherein all lumber dealers may get together to crucify the brick man and the stone men. Do you suppose that all these active trade associations which have been springing up like mushrooms in the past few years—the old trade associations never did anything but hold an annual banquet to

which each brother brought his own chemist—do you suppose that they grew from yearnings about coöperation, fraternity and Service, as announced, or because something else was kicking them harder than they found time to kick each other? I will not insult the intelligence of this audience by answering such a question. Enough that distribution pressure has proved powerful enough to sink the competitive traditions of a hundred years, and build powerful trade associations—themselves on the border line of mergers—for the purpose of grabbing purchasing power away from alternative commodities.

The third channel Cheney terms *Inter-Industrial Competition.* It is the drive of a given industry not only against allied industries—lumber against brick—but against all other industries whatsoever, in order to get a maximum slice of the national income. Here the trade association becomes even more important. Here originate the holy crusades, backed by million dollar publicity funds, to make America shoe-conscious, silk-conscious, rayon-conscious, sauer-kraut-conscious, walnut-conscious, solid mahogany-conscious, davenport-conscious, butter-and-egg-conscious, halitosis-conscious—all in a desperate attempt to break down sales resistance before the consumer's bank account becomes unconscious.

The fourth channel is *Inter-Territorial Competition.* The embattled realtors of Yapptown call on high heaven to witness the virtues of that enterprising community as against the degenerating Papptown. To which come answering yells and reprisals from the Papptown men of Vision. The exchange of pleasantries between, say, California and Florida, comes under this general head. And more than yells and pleasantries are involved by a good deal. This competition actually shifts population, makes and breaks countless businesses, upsets buying habits.

Fifth and finally Cheney calls attention to the growing danger of *International Industrial Competition.* America is not the only nation with excess plant capacity. The

policy of any such nation must be to try and keep its machines turning over by dumping abroad what cannot be absorbed by failing purchasing power at home. All this leads to lively times, as well as into the subcellars of diplomacy. And when a certain level of liveliness is reached men prepare to make the world safe for diplomacy, or whatever other slogan comes handy.

This then is the new competition as outlined by one who ought to know. Whatever liberties I may have taken with his words in order to keep you from walking out on me, I have taken no liberties with his thesis. It follows more or less relentlessly that such a pandemonium is costly, nerve racking and overstimulating to those engaged in it. They make blind efforts; they make concerted efforts, to get out of it. And these efforts largely take the form of mergers, agreements, understandings, division of territory, spheres of influence, what not. The trade association is one such effort, but, as we have seen, it only intensifies competition from another and wider viewpoint. Let Col. William J. Donovan, assistant to the Attorney General of the United States, summarize the situation.

"The earlier combinations were directed more against the competitor. Attempts were made to secure all the plants in the industry whatever their condition or character, and in that way to limit competition. To-day in mergers and combinations, selection of plants is made with regard to strategic location and efficiency of operation. The object of the old type of consolidation was to kill off competition. To-day there is more of a spirit of co-operation, and it is sought by agreement to stabilize prices and to allot territory and consumers. So that in the present era of consolidation the consumer has more to fear than has the competitor. The earlier combinations dealt with the basic supplies of industry—raw materials, prime manufacturing. Present day combinations for the most part deal with the immediate necessities of life."

In other words the shift in mergers is away from production, to processes more in touch with final distribution,

more intimately bound up with consumers' goods—bread, chain stores, thermos bottles, electric refrigerators, typewriters, shirts and collars, ice cream, rayon, tobacco.

But that this drift has by no means broken the control of the older type is evidenced by a recent report of the Federal Trade Commission where it is announced that:

6 companies control ⅓ American water power.
8 companies control ¾ anthracite deposits.
30 companies control ⅓ immediate bituminous deposits.
2 companies control ½ iron ore deposits.
4 companies control ½ copper deposits.
30 companies control ⅛ petroleum reserves.

What shall be my final speculation covering these newer defenses of capitalism? The fact that obtrudes itself most forcibly, is that despite the growth of mergers, the new competition is still running amuck like a bull in a china shop, and still dominating what one suspects is by far the larger fraction of our industrial life. No merger is safe from at least a part of its devastating influence. The going structure as it stands furnishes, Heaven knows, no defense to the ultimate consumer, but one wonders how much it is strengthening the defenses of capitalism. That here and there an industry, or a Henry Ford, digs in, is not conclusive evidence that all the ramparts are being consolidated.

My private opinion for whatever it may be worth is that nobody knows where he is going. Capitalism is living from day to day, grabbing all it can get against to-morrow, but with no seasoned philosophy or program of constructive defense, except in so far as it is stubbornly determined to allow nobody else to have a program. Mergers operate to protect a group against certain competitive assaults, but are often completely defenseless against other wider aspects of the new competition. What price a wool merger, for instance, if the cotton and silk industries can manipulate styles in their own direction; or if blind chance throws

styles in their direction? On the whole the performance of Ford seems to me to be the most impressive exhibit in the direction of perpetuating private capitalism. A series of vertical trusts, utilizing the last word in the technical arts, producing a sound product, decentralizing, releasing purchasing power by paying high wages, installing safety and health machinery and welfare work generally, and operating on a 40-hour week or less, presents a sort of tidy, standardized, functional Utopia that might keep the spirit of revolt and unrest quiet for decades. But of Ford's total payroll, 5 per cent. are craftsmen-planners, designers, blue print men, inspectors, while the 95 per cent. are doing repetitive tasks which can be "taught in a day." It is an open question how long human biology can adapt itself to such a régime. And Ford has only the haziest ideas as to the working of his system beyond the confines of his own back yard; he has never pushed it to a clean-cut national industrial synthesis.

In these premises it is hardly the function of those who do see the industrial system in its larger and more human aspects to despair. Those of us who work for a system based on use rather than profit, must be ready to shift our technique as industry shifts below us—dogma must have no place in our thinking—but the doors are flung wide to those who have the courage, persistence and intelligence to substitute industrial planning for the present blind and purposeless anarchy.

General Discussion

Chairman Lovett: Mr. Chase gives us to understand that the new offensives of capital in the direction of consolidation and competition are all directed against the consumer and I have a suspicion myself that the capitalistic system, if it is ever to be overthrown, will not be overthrown by labor, but overthrown when it is demonstrated

successfully that it is opposed to the interests of all of us as consumers.

I should like the questions and discussions to follow along some such thought as that in line with Mr. Chase's paper. I am going to ask first for questions.

(There were no questions.)

Then if there is any one who has anything to add to Mr. Chase's statements, or to subtract from them, who doesn't want to ask a question because he has nothing to learn, but who is anxious to teach the rest of us something, we should like to hear from him now.

It is interesting to me to follow these conferences year by year. I should say that this year the general temper of the conference had been rather more conservative than usual. I should say from my limited observation that the workers were in general more conservative. But I have a little comfort for Scott Nearing if he is here and others. I think the class to which I used to belong, my pupil, Mr. Fine, calls it the bourgeoisie, is getting more radical. I still have some contacts with the bourgeoisie and one of those is in connection with my college class.

I attended a reunion of that class about a week ago and my class has as its most distinguished member, Mr. Thomas Lamont of the firm of Morgan. I have always thought the class tended to take shape and color a little bit from that eminent example, except, of course, myself. But during the reunion some of the members of the class were heckling me a little bit on the fact that I didn't conform exactly to the type of the class and one member who was a little sorry for me undertook to come to my defense. He said, "You may not like Lovett's ideas, but suppose you had to choose between Lovett and Foster, which would you take?" And with one mighty shout they all said, "Foster." As I say, I think little evidences of that kind show how the current is running in the class that is not represented. I am still waiting for some questions.

MR. HOWARD RICHARDS (New Jersey): I should like to ask what is Mr. Chase's opinion in reference to coöperative buying as exemplified in the movement in England?

MR. CHASE: I am afraid I am not an authority on cooperative buying, Mr. Richards. It seems to me I am even less an authority on English coöperatives than on American. I might say that producers' coöperatives as you find them in this country—the raisin growers in California, the tobacco people in the South and the Dairymen's League around York, etc., have grown mightily. Yet they have themselves tremendous difficulties to face in the new competition, as I called it, following Mr. Cheney. They are strong and I think they are destined to grow stronger. But they have all the problems of higher salesmanship that the ordinary business has.

As far as consumers' coöperatives are concerned, things which really protect the ultimate consumer, I have the utmost hope of a way out for consumers' coöperatives in part, at least, some day. Nevertheless I am afraid we have to get through this jazz and boosting area before they grow very strong here in this country.

I might just throw out one thought that may sound treasonable and it is again not my thought but it interested me. In Harold Laski's latest book he pictures a little Utopia for us and it is something which some of you have probably read. It says, "What is the use of following one complete system in our industrial thinking?" He advocates dividing the industrial system into three main parts like ancient Gaul. Oil, coal and public services of all kinds which are naturally monopolistic and whose output is of the utmost importance to the ultimate consumer should be operated by the state, be nationalized. And those industries like agriculture which are not a natural monopoly, but whose output is of the utmost importance, should be operated by coöperatives, and those industries where the

output is not of profound human importance, super-luxuries and what not, should conform to a *laissez faire* policy.

It seems to me that is a rather interesting suggestion and worth thinking about.

MR. GRANT (Easton, Pa.): I hesitate to make any remarks upon the paper which we have just listened to. But there is one point there in which, it seemed to me, the general argument could be strengthened if this one point might be modified a little; that is, that the principal driving force, as I understood, back of the movement toward mergers is the necessity of employing idle equipment, idle space, etc. Of course that is sometimes the motive, but it is one of many motives. I should imagine that those firms which are doing the most in developing mergers might well be those which have no idle equipment whatever but which on the other hand, are developing their sales so rapidly they are obliged to keep on building new equipment to take care of the business. The company that I happen to be associated with is a sample of that, a moderate sized manufacturing company. The motive, as I see it, for this expansion in all directions is just simply the desire for larger profits by increased turnover, probably reduced profits per unit, but increased total profits. That is a sufficient motive in itself to cause all the rest.

SECTION V. AMERICAN ECONOMIC IMPERIALISM

"AMERICAN Economic Imperialism" was the topic of Sunday morning's discussion. Before introducing Professor Barnes, as the leader of the morning's session, Mr. Thomas pointed out that a vigorous imperialistic foreign policy is in modern times a consequence of large surpluses in the hands of capitalists at home. It is also a consequence of the demand for raw materials from all over the world. The surpluses for foreign investment would of course be smaller if workers got more nearly the product of their toil and investors had less rich returns. Imperialism begins by the exploitation of the workers at home and goes on to exploit workers abroad. Nevertheless, it tends to buttress the profit system economically by providing markets and sources of raw material at the same time that its psychology acts as an intoxicant to the workers. It is therefore a defense for capitalism—the kind of defense, however, which ultimately is likely to mean catastrophe not only for the system but the men and women who must endure new wars born of an imperialist policy.

Barnes on the Nature of Imperialism

Mr. Thomas thereupon introduced Professor Harry Elmer Barnes of Smith College, author of "The Genesis of the Great War," etc.

Professor Barnes: What we propose to do this morning is to divide the program into four or five sections. I will attempt to treat of the general nature of present day imperialism; Mr. Dunn will take up the specific nature of

American economic investments abroad; Dr. Jenks will deal with the tendencies in American imperialism in Cuba; and Dr. Knight will present the case with respect to Santo Domingo. If any time remains I will read a paper which Mrs. Margaret Alexander Marsh left with me, on Bolivia.

The Older Imperialism

What I want to do is take up in general the foundations of modern imperialism, the nature of present day imperialism and some of the leading problems involved.

Imperialism is an old phenomenon in human history. In the form of political imperialism it goes back to the very earliest days of written history. Man became an imperialist as soon as he developed methods of transportation adequate to cover a sufficiently large area to build up an empire. The Egyptians created an empire as soon as they received the chariot and the domesticated horse. The Persians added to the earlier methods of transportation by the greatly improved roads they were able to construct and created the greatest empire in western Asian antiquity. This was followed by Roman imperialism. So the older type of political imperialism goes back as far as history itself. Economic imperialism is something much more recent. It is only in modern times that we have accumulated enough goods and capital to warrant or make possible a high degree of economic penetration and control.

Foundations of Modern Imperialism

This brings us to the foundations of modern economic imperialism. Its origins are to be found primarily in the Industrial Revolution which was built upon the triumph of machine technology and the factory system. This produced a far greater demand for raw materials and also created a much greater volume of finished products. This brought about, in turn, the struggle for raw materials;

i.e., minerals, textiles, oil and rubber and any number of other things which are necessary in modern industry. And, on the other hand, it brought about the struggle for markets, especially overseas markets. This was due in part to actual necessity and in part to the dogma that the overseas markets were better than the domestic markets.

Then, accompanying this development of industry, there came the rapid accumulation of capital, and the owners of capital sought investment overseas, not merely in the bonds of backward states, but also in the way of securing raw materials and in promoting the sale of manufactured products. In order to realize these economic desires many types of economic penetration and political control have been developed, the most extreme form being colonies which involve not merely economic penetration but also definite political government. Next we have spheres of influence which are not entirely economic but also involve a good deal of political intervention. Informal economic pressure has been exerted in differing degrees at different times.

Technology and Imperialism

I think one of the most important things to be brought out in connection with the industrial and technological foundations of imperialism is the very significant relation of technology to imperialistic expansion. It is even more important in many ways than capitalism itself because the actual nature and areas of imperialism will be determined very largely by the technological basis of industry. Fifty years ago the sources of raw rubber and petroleum in the world were of almost no significance. Now the conflict over raw rubber and petroleum is the most important thing, probably, in the whole series of struggles for raw material. Perhaps fifty years from now in the development of technology some new materials will have taken the place of oil

and rubber or will have superseded them in primary significance. Certain areas not looked upon as important now will then become an arena of international conflict.

This is of special importance because the geological deposits and various other phases of the sources of raw material were all determined long before the modern political boundaries were laid out, and there is no reason why we may not discover new sources of valuable raw materials in areas already occupied by advanced and powerful countries. And if this is the case, the struggle for these areas will present novel complications. If we find in the future a certain kind of raw material which we must have in industry, and if the sources of this material are located in areas which have long been occupied by strong countries, this fact will bring a greater probability of conflict than where such materials are located in unoccupied areas. So the whole future of the struggle for raw materials and investments is very definitely linked up with the progress of technology which we cannot in any large degree foresee.

What Is Imperialism?

The next point I want to deal with is, What is imperialism? Does it mean government as it once did in the old days, particularly in oriental antiquity? Imperialism once meant distinctly imperial control through political agents—actual empire. Does it mean such to-day? Not necessarily! To-day imperialism has come to be much more a matter of economic penetration. Many say we should not define imperialism in this way but should keep it simply as a term which is descriptive of political control and relatively complete political administration. Nevertheless, if we do this, we shall leave out perhaps the most important thing in oversea and international contracts, namely, economic penetration. Economic penetration, when followed by, or accompanied by, political government merely, introduces another element. *Imperialism, then, should be used as a*

comprehensive term descriptive of economic penetration for raw materials, for markets and for financial investment.

Need of Facts

Further, I think that it is necessary for us to get away from the old single track dogmas about imperialism—away from a priori assumptions—and make an actual study of facts in order that we may find out what modern imperialism really is. We may find that many of our older dogmas are thoroughly discredited. What we need to do is to find the actual facts about modern imperialism.

We have assumed the imperialistic process to be essentially as follows:

1. Merchants come to certain areas;
2. Their contacts are followed by appeals to the various foreign offices;
3. These requests are followed by military intervention and political administration.

That is not necessarily invariably the case. In many instances there is no political intervention whatever. In many cases the bankers and merchants do not want political intervention. Hence, what we need to do is to make an actual study of imperialism in concrete action. That doesn't mean we are coming out in the end by approving it. We may ultimately emerge from a very careful study of facts with a much more vigorous condemnation of imperialism than socialistic writers have offered. We may, on the other hand, find that in some cases imperialistic process is somewhat mitigated by the facts. But we need the facts before we can understand or control the situation. Further, we must tend to relinquish the simple assumption of overt and conscious diabolism in connection with imperialism. There is no doubt we have certain definite economic needs that can only be met by obtaining markets overseas and by securing raw materials from foreign areas. We have a certain amount of investment capital which

will seek expansion beyond our own boundaries. We have to consider these economic realities. Many of these may indeed be diabolical in their operation. But I think what we need is to abandon the emotional assumption of diabolism in connection with imperialism and find out what are the realities that bring it about and how these can be mitigated or restrained.

Again, we are likely to be faced for a long time with this problem of the contact of lower and higher cultures, of the superior and inferior economies. And, as long as the world is organized as it is at present, we will continue to have this matter of economic penetration and in many cases the problem of political intervention and control. So if we are going to mitigate the imperialistic situation it will have to be approached in part indirectly by changing the nature of the economic and social organization of humanity.

Economic Penetration and Political Control

As I pointed out above, the term imperialism to-day means primarily economic penetration—the activities of those who struggle for raw materials, those who are looking for markets overseas, and those who are looking for investment. Sometimes the government will aid them; sometimes it will not. We cannot assume that economic penetration is always to be followed by political intervention and control. It will only so result when those in control of economic interests really believe that it is going to redound to their benefit. As Professor Jenks will explain, I believe, this morning, those at the present time interested in the economic control of Cuba would just now rather have our government keep out entirely in a political sense because of the jealousy and irritation of the Cubans on the point of political intervention.

In other words, the men in control of industry and finance are highly flexible and eclectic in their attitude

toward political intervention. When it is going to benefit their cause they are for it; when it is going to endanger their cause they are against it. We cannot, therefore, assume they are always going to demand it, for they often believe intervention opposed to their interests.

In connection with this we have to abandon the old dogma that those who are interested in commerce, industry and finance are able to get exactly what they want from the government at the very moment they ask for it. This is probably as far from the truth as the statement of Mr. Hughes that the State Department always turns a deaf ear to investors in overseas areas. There is no doubt that investors exert pressure on the government and that they have no conscience about going and asking the government to intervene to aid them when desirable. But the process is by no means always as direct as we have ordinarily assumed. We have to look for many more subtle and indirect methods of economic pressure on government than overt demands on the state and war departments to send marines.

Interconnection of Economic Forces

With the growing evolution of modern economic life, it has become impossible sharply to separate imperialism into a struggle for raw materials, a struggle for markets and a struggle for areas of investment overseas, because all of these things have become intertwined. The bankers are interested in financing the struggle for raw materials and they are also interested in the sale of commodities. The whole process has become so intertwined that it is a great economic complex and it is only for purposes of pedagogical simplification that we can divide the struggle into one for raw materials, markets and financial investments. In actuality they are all involved in one fundamental economic process. We often talk about manufacturing, transportation and banking in this country. But we cannot artificially

separate them, for they are all involved in the economic complex of capitalism.

Imperialism and Social Reorganization

As to the future of modern economic imperialism we cannot foresee the outcome with any definiteness or certainty. It is contingent upon the future reorganization of economic society. But I do not believe there will be any great transformation in imperialism until economic society is reorganized. How much time that will require for achievement is something for prophecy alone. As to what would be the future of imperialism under Socialism, of that again we cannot be certain. It would depend upon the mode of control of society, the type of socialism which prevails, the nature of industry and manufacturing under the new order, the way in which we raise capital, and the manner in which we spend it. Thus, the ordinary assumption that immediately upon the establishment of a socialistic government we would have a complete disappearance of imperialism seems to me fallacious. We might have a rather speedy mitigation of imperialism, but that we would have an elimination of it at once seems highly dubious. The elimination of imperialism will, rather, be one of the great problems for socialism to work out.

American Imperialism

In regard to the United States in its entry into imperialism, it followed the natural trends outside of this country, though somewhat delayed. We have always been an imperialistic country from the standpoint of the development of our control over new areas and the subjugation of lower peoples. The history of our country has been essentially a history of imperialism. In interpreting American history from the standpoint of development of the expanding frontier, we brought the Indians under control and con-

quered this great continent. This process ended about 1890 at the very time when we were going through the most important stages of Industrial Revolution in this country, and had reached the first important step in the development of excess capital. So we came to the time when we needed to expand overseas at the exact moment when we had money to do it and had in control a political party that was to a peculiar degree under the domination of industry and finance.

In Latin America

We naturally first turned to Latin America, rhetorically for the purpose of advancing the cause of justice but practically for the purpose of territorial expansion and, ultimately, with the growing economic development of the country, for financial investment and the securing of raw materials.

The intervention in Cuba, then, was not any cataclysmic matter. We had aided Cuba and thought about intervention for more than a half century before 1898. In 1898 things shaped up in such a way that we took the practical step. And from Cuba we passed on into other phases of investment and control in Latin America. We also turned to the Pacific, to the Hawaiian Islands, the Philippines and China. Then with the World War we developed our remarkable investments in Allied bonds which have made us the most important factor in European finance. With the revelation of the important petroleum supplies in Persia we have entered the Near East, and there is apparently to be no discernible limit to the nature, degree and extent of American investments abroad.

Essentially the facts seem to be about the same in regard to American financial penetration everywhere, though it is noticeable that we vary our rhetoric in direct relation to international courtesy and necessity. We talk very openly and frankly about a great economic empire in the western

world, because we are faced with relative weak and inferior nations. On the other hand, we say very little about an economic empire in Europe, because it would not be international courtesy or expediency to talk about annexing Europe in an economic sense. When speaking about Europe we emphasize rehabilitation, mutual sacrifice, goodwill and democracy. But we will, nevertheless, attempt to reduce Europe to a state of economic dependency. The financial penetration will go on in exactly the same fashion, regardless of differences in phraseology.

Mapping Out the Research

The American Fund for Public Service has set aside a definite allotment for an actual study of the process of American imperialism. They have accepted what I believe to be the wisest possible stand in regard to imperialism, namely, that the first necessity in the way of controlling it is to know about it—actually to find out what imperialism is and what it is doing—and that only when we find that out, can we begin to take practical steps to control it.

So we have had a number of published products and have taken a number of steps to work out this program. Dr. Nearing and Mr. Freeman have given us a very admirable description of the way in which American imperialism has operated. Mr. Dunn has given us a much more intensively documented study of the scope and nature of American investments abroad. Dr. Jenks is now working out a very thorough monographic study of American investment in Cuba. Dr. Knight is doing the same thing in Santo Domingo, and Margaret Alexander Marsh is investigating the situation in Bolivia. The remainder of the program will be turned over to description by these persons of what they have actually found in regard to American investments in general, and American investment in Cuba, and Santo Domingo and Bolivia in particular.

Dunn on the Economics of Imperialism

Mr. Dunn: I was asked to say a few words concerning the various ways in which American money finds its way abroad, or the general makeup of foreign indebtedness to the United States. First we may mention the largest item in the nearly 25 billion dollars which represents the total present indebtedness of all foreign countries and citizens to the United States. This item of more than 12 billion consists of loans made by the American government to foreign governments during and immediately after the world war.

War Debts

During the last few months Mr. Andrew Mellon and his associates have been engaged in extensive conversations with the financial representatives of foreign nations with respect to the payment of these various burdensome obligations at some distant date. This process of debt settlement has developed with quite satisfactory results for certain countries and not so satisfactory for others. Mr. Mellon, it will be remembered, was particularly indulgent to the dictatorship of Fascist Mussolini. The Italian government is to pay an average of 1.1 per cent. of their debt for 62 years, after which it is to be relieved of all further obligation both for principal and interest. In every case where settlements have been made, whether the period of payments extends over 62 years or 100 years, the sacred principle of private property and the normal debtor-creditor relationship has been diligently upheld. However, the chances of the United States government receiving some of these payments are about as fair as the chances of getting back the money advanced to Mr. Kolchak and other unfortunate enemies of Soviet Russia. Political and economic—probably revolutionary—developments will determine how much of this money we ever obtain from the

European countries in which our popularity is certainly not being enhanced through our Shylock attitude in the settlement of the war debts, particularly in the case of Britain and France.

Kinds of Private Investment

As for the investment of American citizens abroad we may note next the various forms this may take. First we may invest in the obligations of foreign governments, states and municipalities as well as in foreign corporations. The total estimated value of all these investments abroad at the end of 1925 was about ten and a half billion dollars. Of this amount 4,430 million was invested in government-guaranteed obligations and the remainder—5,975 million—in industrial securities and direct investments. The roll call of countries into which our dollars have gone in this form would be answered by practically every country in the world from Austria to New Zealand. The proportion of our total investments of this type planted on various parts of the planet are as follows: In Europe, 2,500 million, Latin America, 4,210 million, Canada and Newfoundland 2,825 million, and Asia, Australia, Africa and the rest of the world, 870 million.

American bankers are now floating government and corporate securities in the American market to the tune of about one billion dollars or more a year, the majority of this (88 per cent. in 1924 and 63 per cent. in 1925) being invested in the bonds of governments, states and municipalities. The industrial and corporate investments, however, are decidedly on the increase, particularly in Germany. The total value of corporate securities of foreign countries floated in the American market in 1925 was nearly four times as great as in 1924. And in 1926 up to date American capitalists have invested over 100 million in German corporations alone, this being nearly one half of all the American capital furnished during this period to European

corporations. Altogether Americans have put over a half billion dollars in German securities since the beginning of 1924. The Dawes Plan made all this possible, just as a similar plan for France may open the way for more profitable private investment there.

Another form in which American dollars go abroad is through investments by American citizens in the internal obligations of foreign governments and corporations as well as in the sterling bonds of these corporate and governmental units. It is quite impossible, however, to measure the exact flow of American money into these foreign currency issues. Some experts have estimated the amount as high as 600 million several years ago. It is probably less at present as Americans now have, as we have seen, a much larger variety of foreign dollar obligations to attract their attention. It is also impossible to do more than make rough estimates of the amount of foreign indebtedness to American banks represented in short term credits, bankers' private loans, and other transactions not always publicly recorded.

There may also be mentioned in this connection the extensive connections of American banks abroad through which branch banking is facilitated for American traders and business men in foreign countries. These branch banks now number more than 100 and represent a considerable investment abroad. They are chiefly important, however, as mediums through which American commerce and direct industrial investment are advanced.

Concessions

Finally we have all the so-called "direct investments" of Americans in properties, lands and industries abroad with practically every country and every fruitful field of profit-making represented. One has only to consider the struggle of concessionaires for oil, rubber, minerals as well as the direct investments in public utilities, plantations, and manufacturing enterprises of every sort to realize the increasing

bulk of this form of American ownership overseas. The steady growth of American, as compared with the British, firms in the Argentine meat packing business illustrates the tendency in certain South American countries. In some countries the United States business men already have a monopoly. Of course in our own imperialist possessions, such as Hawaii, American citizens have grown fabulously rich on this form of direct investment in overseas territory. The descendants of New England missionaries have fared particularly well in the sugar, pineapple and general plantation business in Hawaii. Where there is a considerable British investment as in the Philippines it will be noted that most of the American capital has gone into large agricultural and economic enterprises while the British predominate in the commercial field with much smaller enterprises.

Some Illustrations

Illustrations of the rapid American economic expansion in specific countries may be found in Chile where our total investment grew from 15 million dollars in 1912 to 400 million last year due largely to the expansion of American copper properties. In Venezuela, American investments have gone from 3 million to 75 million in the last decade and Colombia has seen an expansion of American investments from 2 million to 80 million during the same period. It is also to be noted that we have caught up with and passed the British in total investments in Canada. In 1913 Britain had 1,860 million dollars invested in Canada as opposed to our $417,000. By 1923 the British investment was only 1,890 million while the United States had 2,425 million and completely dominated the field. In fact the United States has more money invested in Canada than in any other foreign country.

Before leaving this picture of our vast investment abroad it may be well to note the fact that the position America now holds as the greatest creditor and loaning country has

only been achieved during and since the war. In 1900 we had but a half a billion dollars invested outside the United States while foreigners had invested nearly seven billion in our own industries. By 1913 Americans had put some 2,600 million into foreign countries but foreign citizens still held from four to five billion dollars of American securities. So that for the two decades preceding the world war the net flow of capital was into the United States. However, the war turned the tide and gave us the dominant position we now occupy in international finance as we rapidly move into the shoes of the British Empire.

Mr. Babbitt Invests Abroad

Although I was not expected to touch on the political implications of this new 25 billion dollar status of ours, I may at least remark on one of its effects as it touches the average middle class citizen. You may have noted the widespread attempt during the last few years to "educate" the moderate-sized investor to his "new responsibilities" as a citizen of the American Empire. Mr. Dwight Morrow, a member of the firm of J. P. Morgan & Co., has been a particularly zealous educator of his fellow citizens. In frequent public addresses he has emphasized the wide absorption of these foreign securities among the American people. I suspect somewhat the same motive animates Mr. Morrow as move certain corporation directors, like those of the Standard Oil Company of Indiana, who are bent on "democratizing industry" by means of employee stock ownership schemes. Just as these industrialists want to give a democratic façade to capitalist exploitation at home, so Mr. Morrow and the international bankers would like to "psychologize" us into the good old "widow and orphan" attitude toward investments in foreign corporations. Imperialism will thus be camouflaged with democratic phrases concerning "wide distribution," and he who

lifts his voice against it, if the Morrow maneuvers are successful, will be accused of snatching bread out of the mouths not only of widows and orphans but out of the hands of the innocent farmer investor in the American hinterland. Perhaps we can do something to offset this Morgan propaganda by pointing out that the number of shares held per investor is what counts rather than the number of investors. We may get nearer the heart of the matter, however, by noting that the bankers, once having picked a sizeable commission off the sale of these foreign bonds are, of course, eager to give them as wide a circulation as possible outside their immediate banking families, so that should the securities, by any chance, not prove as profitable as expected the general public would be caught "holding the bag." Polish bonds, for example, might be a very desirable bond to have sold as widely as possible in order to distribute probable losses.

Books Worth While

Some one has suggested that I mention the two books that were written as a result of certain researches carried on under the direction of the American Fund for Public Service. Part of the work on "Dollar Diplomacy" by Scott Nearing and Joseph Freeman was the result of appropriations by this Fund. This book is a well-rounded analysis of the forms of political imperialism as applied to the United States. It is the best documented study of its kind yet produced and covers the entire development of the American Empire from the days of territorial expansion down to the present period of consortiums, concessions, protectorates and customs administrations. It covers thoroughly the various violations of international law, and the other highhanded and uncivilized acts carried out by American diplomats, marines, bankers and businessmen in their treatment of the so-called backward peoples of the earth, particularly our Latin-American neighbors. It shows

how both political parties have played the imperialist role in dealings with these small republics to the south. My own compilation, "American Foreign Investments," covers purely the investments of America in the different countries besides presenting a number of bankers' contracts and other documents published for the first time. For the best theoretical study of capitalistic imperialism based upon European pre-war experience I think Lenin's "Imperialism, the Latest Stage in the Development of Capitalism," is the best work yet translated into English. Then there is the recent "Oil Imperialism" by Louis Fischer which covers a particular phase of the American struggle for raw materials showing up the general bad faith existing between the various oil trusts of the world in their mad scramble for the oil of Russia and Mosul. This question of raw materials needed for American industry is becoming increasingly serious as Mr. Hoover's anti-British pronouncements on behalf of our tire and rubber manufacturers early this year convincingly shows. Of course the oil issue is not the same as the rubber issue, as we still have large supplies of the former in America, though always reaching out for more particularly the huge reserves in the Soviet Union. With rubber it is almost a matter of life and death as the British near-monopoly must be broken or serious trouble is bound to follow.

Opposition to Imperialism

Opposition to imperialism is not at present very articulate. Such as it is, it is not the same idealistic sort of anti-imperialistic propaganda carried on in the last years of the nineteenth century in which Senator Pettigrew and others participated. At that time we had disinterested American patriots who called the Spanish war a crime and fought futilely against all annexation of territory. This was about as effectual as the hue and cry against the formation of trusts. Economic forces were against it. The only

worthwhile anti-imperialist organizations to-day are those that spring out of the actual exploitation of the so-called backward nations. These are clearly connected with workers and radical movements with a Marxian foundation and drive. Of course, in many instances the local nationalist and anti-Yankee sentiment is also utilized by the working class anti-imperialists as in China. But certainly the hope for the destruction of capitalist imperialism lies in those native organizations arising directly out of exploitation and composed of the exploited people themselves. One of the organizations of this type which serves to link up the foes of imperialism on the two American continents is the All-America Anti-Imperialist League with sections in this country as well as in Cuba, Mexico, Porto Rico, Colombia, Venezuela, Brazil, Peru, Argentina and other Latin-American countries.

In this connection it may be observed that the official attitude of the American Federation of Labor, although liberal on such questions as the Chinese strike where British rather than American imperialist interests were at stake, tends more to follow the lead of Herbert Hoover and other business men who are greatly concerned over foreign monopolies in rubber, nitrates, sisal and other commodities. On Russia the A. F. of L. policy is quite as reactionary as the State Department's, and in favoring compulsory military drill on the same platform with the American Legion the A. F. of L. is doing its bit to oppose pacifism and internationalism, and to this extent is furthering the interests of capitalism and imperialism. The Pan American Federation of Labor frequently protests against labor laws and restrictions in Latin-American countries where American interests dominate and perhaps to this extent may be considered anti-imperialist. But the anti-imperialist spade work will doubtless have to be done by some other organization. Perhaps it is too much to expect that a labor aristocracy living, in a sense, off the fruits of imperialism

and accepting the profit-taking system "as is" should put up any vigorous fight against the international extensions of this system. Imperialism will probably receive its setbacks not from such organizations but rather from definitely radical and "subversive" activities in countries under American imperialist rule where the exploited native will organize in labor unions to fight against the foreign oppressor.

The Way Imperialism Works

Two examples of the way American imperialism works, as seen close-up, come to mind. One shows the connection of the bankers and the governmental agencies. A friend of mine employed in a New York banking house tells how a few months ago during the controversy on the Mexican land decrees it became necessary for certain business interests to protest. His banking house received a wire from its Mexican branch calling its attention to this Mexican legislation and asking the bank to use its good offices to prevent its enforcement. A representative of the bank "got Washington on the wire" and talked to some one in the State Department. The banker told his friend in the State Department what kind of a note should be sent. Such a note was written and sent by Mr. Kellogg to Ambassador Sheffield in Mexico City. The next morning we read in the New York papers that Ambassador Sheffield had handed a stern note to the Calles government. It embodied the very wording dictated over the phone from the banking office in New York. Sometimes connections are not quite as direct as this. There may be a larger number of intermediate steps.

Another incident is related by a man who has watched the struggle for oil in Venezuela very closely during the last few years. He tells me how after representatives of the Standard Oil Company had been requested to leave the

country because they had secured their due share of the petroleum deposits, a representative of the Standard remained in the country working under cover supposedly representing another company but in reality the Standard. He had $50,000 or more for "expense money" to use in bribing local officials. He was apparently quite successful in his operations, thanks to the amount of money Standard was willing to blow into this type of prospecting operations. This may not be considered ethical by certain business men but it seems to be more or less the rule of the game in the oil struggle in Latin-American countries. The competition for other minerals and products has been no less keen, and has been accompanied by similar breaches of the "business code."

Other aspects of imperialism worth careful study are the increasing number of Naval Missions dispatched by the United States to Latin-American countries, the number of arbitrations between these nations in which the Yankees play the rôle of referee, the use of warships to carry traders and business men, and the activities of fiscal agents and customs administrators in the countries now dominated by Wall Street. It is stated that we now dominate in 21 Latin-American countries, 10 being completely under our sway; and in six out of the ten we have American financial agents supported by troops.

Dr. M. M. Knight was then introduced by Prof. Barnes as a special student of Dominican affairs.

Dr. Knight: As Professor Barnes has told you, the group I belong to is working on cases chosen for their difference in type, one from another. You must realize that this difference is not absolute. Most of the phenomena which come under the loose expression "imperialism" will be found to some extent in almost any example picked out. Now my time with you is very short, and my remarks are naturally more or less controlled by the fact that I come

between other speakers, because I want to do my bit in making the general picture as lucid and coherent as possible. Therefore, I shall stress only the main factor, as I see it, in the case of Santo Domingo.

The Background

The important thing to keep in mind as constant and essential background is Panama. From the earliest Spanish times, the gates of Panama and also, in a very real sense, those of the Gulf of Mexico, have been the passages between the islands in that wide arc known as the Antilles, covering the Caribbean Sea. I have no time at all to discuss the centuries of struggle between European countries over the Spanish Main, or the stages whereby the United States inherited the chief interest in the prize. Our main interest in Santo Domingo, since its independence in 1844, has been military and naval. We have wanted it less for its own sake than as a key to something else. In this respect it vaguely suggests Gibraltar, which is the extreme case of the kind because it has no direct value whatever. American private investments in Santo Domingo have not controlled our state policies toward that country. Public finance and international loans have been much more important, on account of the strategic value of the position.

Remember that our military occupation of the Dominican Republic took place during the World War, when we were very much excited about what the terrible Germans might do in the Caribbean region, if they should be victorious and we hadn't already beaten them to it. When the documents on the purchase of the Virgin Islands are published, this point will be clear. I have seen a good many of them already. Thus the main thread of the story of the United States in Santo Domingo is how the Marines got there and what they did afterward, rather than the more or less independent unfolding of private business.

The excuse for Marine intervention dates back almost to the Spanish-American war. I will merely mention the fact that we had a "San Domingo Improvement Company," incorporated in the State of New Jersey, which had taken over a lot of European claims and marketed a lot of bonds with innocent small holders in Europe. In 1902, the State Department got very much interested in the troubles of this company, which seemed to be in danger of losing out entirely—of course thereby creating a wonderful riot in Europe, where something like half the bonds which it had marketed were held.

There was a long series of negotiations, in which the American Government made the recognition of certain claims the condition of its recognition of a succession of Dominican presidents. In 1903 and 1904, a predominantly American commission arrived at terms under which the Dominicans were to pay a $4,500,000 award to this group of financiers. The Agent of the United States in these arbitration proceedings made it clear in the documents of the case, and afterward in a report to President Roosevelt, that the commission knew perfectly well in making this award that the Dominicans would never pay it without some kind of financial intervention. The Agent referred to is John Bassett Moore, and the report may be found in the 1905 volume of the Foreign Relations of the United States. That award of July, 1904, meant the occupation, in October of the same year, of some custom houses of Santo Domingo by the Vice-President of the Improvement Company.

Evidently fearing that we meant to eat all the cake ourselves, the French immediately took the cue and threatened intervention. A sauve Italian nobleman, in command of a rusty ironclad in Caribbean waters, then steamed to Santo Domingo and politely inquired when Italy was likely to be paid. So, having set the pace ourselves, we discovered a certain danger that Europe might intervene.

Roosevelt Answers the "Cry for Help"

This is the kind of question which often hinges on the contents of one man's mind, and when he is dead it is very hard to be positive about the answer. Was there any real danger, as Theodore Roosevelt ruminated the matter in his mind, that he was going to allow a European intervention? At any rate, he permitted threats, and used those threats for all they were worth to carry out his own scheme. The State Department sent a telegram down to the American Minister, asking him to fish up a request for us to come to the rescue of Santo Domingo. Not only in setting up the American receivership, but also on the later occasions when something happened for which apology seemed necessary, the excuse has always been that manipulated "cry for help," as Roosevelt once called it, from a poor, suffering bankrupt!

Well, the upshot of the whole business was that the Americans set to work for a convention which would allow them to collect not only the Improvement Company's four and a half millions, but the European claims at the same time. An American naval officer was sent to Santo Domingo to help the American Minister in drafting this treaty, which was toned down and dressed up in the State Department. Much to Roosevelt's chagrin, no amount of persuasion could get the United States Senate to adopt it. Then another "request" was fished up and the Presidents of the United States and Santo Domingo installed the customs receivership without the consent of either Congress.

Roosevelt's own version of this in his *Autobiography* was that he forced it down the throat of the Senate for two years, and would have continued the executive agreement to the end of his term if the august body in question had not at last decided to swallow it. What really occurred was that the machinery of the extra-constitutional Modus Vivendi receivership grew so elaborate that it practically forced its own continuance. For one thing, there was a

moratorium of all debts. One result of that was that so much money accumulated in New York during the two years that the Americans were terrified at the idea of turning it over to the Dominicans in a lump. Another was that the creditors were all so tired of waiting that any sort of definite settlement seemed better than the delay. Finally, the sending of so much money out of Santo Domingo, to lie inert in New York, had brought on an economic crisis which made the Dominicans themselves anxious to negotiate.

The machinery set up under the old convention of 1905 largely dictated the terms of the more permanent one of 1907. Rather than take a complete and formal licking, the United States Senate demanded some modifications which were not as innocent or "utterly unimportant" as Roosevelt considered them. Furthermore, things had gone so smoothly during the two trial years that the Americans were somewhat off their guard. In this comparatively weak convention, there were a couple of innocent looking provisions which were to be made the excuses for the military intervention of 1916. One was that Santo Domingo wasn't to increase her public debt without asking the President of the United States and getting his consent; the other that the customs rates must not be modified without similar permission.

We had a great deal to say during the years following 1907 about how we had saved the Dominicans from revolution. Nevertheless, the scheme was strictly a "fair weather" one. The result of taking about half the revenues to pay the bondholders was that the Dominican Government was always skating on thin ice. Moreover, we were trying to stimulate the export industries of the country and to increase the complication of its economic life at the same time, which of course tended to make administration more expensive from year to year. There was no "slack" in the arrangement, and any serious crisis

might force the Government of Santo Domingo to violate the all too rigid financial terms of the convention.

Taft Administration Sends a Commission

A revolution broke out in 1911 against a rotten government which we had permitted to usurp the powers of the State, and which we continued to support during most of 1912 by paying it over the revenues collected by our receivership. The Taft administration sent a commission which placed the gentle and genial old Archbishop in the Presidency. His life was made so miserable that he resigned in four months and went to Europe to recover his health. A loan of $1,500,000 had been authorized by the United States, to clear off the expenses of the revolution. The payments to the National City Bank which it involved were one more drain on Santo Domingo's share of the revenues; and besides, the loan proved too small, leaving a floating debt which grew larger and larger. Each succeeding government found itself in a worse financial position than the last. In a sense, the revolutions were a cause of this, but it is equally accurate to state that they were an effect of it. This is what the Wilson administration found on its doorstep in the spring of 1913.

The "Wilson Plan"

Among the things President Wilson's government inherited from its predecessor was a growing conviction that the 1907 convention was too weak, and required revision, giving the United States more power. The American Minister, W. W. Russell, had already come out flatly for "control." This meant a financial "adviser," somewhat like the British had in Egypt, and effective control over the armed forces. Secretary Bryan temporized at first, until the situation got much worse, and then came out for

the good old Republican program. Unfortunately, his appointee as Minister was a "deserving Democrat" by the name of Sullivan, a broken down police-court lawyer whose political services seemed to call for a reward. The competent Receiver, though a Democrat, was thrown out to make room for one of President Wilson's henchmen from New Jersey. Dominicans had been suspicious of the intentions of the Republicans, but the customs administration had at least enjoyed the reputation for honesty and competency. If the American Legation had sometimes been stern, it had at least been dignified and above petty politics. There was a fine web of personal relationships between American Government representatives and local economic interests under the Bryan regime which destroyed our prestige and made our occasional sternness merely an object of ridicule.

The Wilson administration tried over and over to read an American financial adviser into the 1907 convention. Bryan actually sent one down in 1914, only to recall him the next spring when the Dominican Congress threatened to impeach the President for keeping such an officer, in violation of the constitution. In the meantime—at the end of 1914—a new President and Congress had been elected under American supervision. This "Wilson Plan" election committed the American Government to a particular government in Santo Domingo, on the supposition that it was the people's choice. Never was there a more complete fiasco. The "Wilson Plan" President was secretly committed to stiffening American control into something like a protectorate, which his "Wilson Plan" Congress would never agree to. They scrapped almost continuously, to the end.

The Marines Land

The Marine occupation, beginning in May, 1916, was the immediate result of an attempt on the part of this

Congress to impeach the President. President Jimenez took up arms, invited American Marines to land, then suddenly repented and resigned rather than take his own capital with the aid of foreign bayonets. The Marines then took the capital, suspended the constitutional election of a temporary President by Congress, and proceeded to rule with a "rump" cabinet of four ministers, who would themselves have resigned but for American threats to replace them with a military government. Practically the whole country was occupied by American troops by the end of July. The American receivership took complete control of collections in June, and suspended all payments to the legitimate government in August. A new President had been elected in July, but the Americans refused to recognize him unless he decreed the elaborate scheme of a protectorate which they demanded—which he had no constitutional right to do. That government lived from August till the end of November without any of its own funds. Of course, the American Military Government started off with its pockets full of money—the occupation having withheld the Dominican share of the revenues for months.

A good many Dominicans were killed while the American Marines were seizing the country during the summer of 1916. We might call it a difference of opinion. To the natives, defense of the Republic was likely to seem a virtuous act; but to the invading soldiers it was naughty, childish rebellion against what was both inevitable and good for the country. A Provincial Governor who objected to the establishment of an American Military Government in December was publicly declared an "outlaw;" and Captain Knapp accused the Cabinet Ministers of "desertion" because they did not rush in to aid him in making Marine government a success. Some of you have served in armies, and don't need any description of the military mind, and it is quite useless to describe it to anybody else.

"Civilizing" the Natives

Let me attempt to picture one incident of the autumn of 1916, merely by way of illustration:

The Marines in the capital crossed the river one day in October, to capture one General Batista, who had had a run-in with some revenue officers the preceding year. From all accounts, a jail was quite a suitable place for him, but he was not in rebellion against the Government, the Americans at this time had no authority whatever but force, and to go out into a piece of woods to settle an old grudge was to invite trouble. I don't know how hard they tried to take him alive. At any rate, they killed him, and also some innocent bystanders, including one woman. The Marine detail was attacked by the infuriated population, and almost wiped out. Of course, reinforcements were sent over, with machine guns, and "order" restored.

This made the Marines nervous. Perhaps you know, some of you, what it is to be out in a strip of woods, or worse still in a town, with plenty of good cover in the vicinity, knowing that nobody loves you in the whole country. So the Marines got nervous. A patrol of them came back into the city the second day after the above riot. There are a lot of nice boys in the Marines, but these were just armed human beings, whose nerves had had a shock, in a country where they didn't belong. What happened was natural.

There was a little old fellow of sixty-one, who didn't understand a word of English, and was deaf in the bargain. He was just closing up his shop, which happened to be a beer shop, as the patrol came by. They stopped to question him. He didn't understand them and they didn't understand him. Very likely they were all scared. Just how the shooting and bayonetting started is not clear from the confused accounts. At any rate, the Marines filled the old man with bullet holes and bayonet thrusts.

That wasn't all. They started shooting up the whole

landscape. One boy in a nearby house was shot dead while sitting at dinner; another bullet killed a maid in one of the thin-walled houses. Of course, these Marine boys didn't mean to kill the housemaid, or the boy at dinner, and they may have been sorry for the old man's death, but they were nervous. Military law is like that. If you hear a muffler backfire and think somebody is shooting at you, the book of etiquette permits you to kill everybody in sight. Such accidents are certain to happen where the stage is set for them. If anybody is to blame, it is not the soldiers, but the higher-ups who send them where they are bound to get into trouble sooner or later.

This type of thing did not endear the Marines any to the Dominicans, but it did plant a sense of fear and helplessness. It is clear that the Americans had no duobt of the success of their scheme of coercing the Dominican Government by denying recognition and holding up all funds. Finally it became obvious in November, 1916, that President Henriquez y Carvajal and his Cabinet would hold out until a collapse came, for which the Americans would get the blame. So it was decided to use force, and the American Military Government was set up. This move was not necessary, even if we admit that the finances and armed forces needed supervision. The Dominican Government offered everything up to an abdication of the national sovereignty, and any more would have been treason.

The proclamation of the Marine government was very long, but I can summarize it in a few words. It says, in substance: "You people are not carrying out the 1907 convention according to our interpretation, which is the one we are going to enforce. Our extinction of your independence will not be permanent if you are good, which you had better be. We will adhere to your laws when they do not conflict with anything we take a notion to do, and use Dominican personnel for the lesser positions as long as they do exactly what we say." The final sentence in the Spanish

version is a gem: "The original text of this proclamation, in the *English language*, will be authoritative in all questions of interpretation."

Oh, it was a beautiful government they set up. I'm sorry my time is so short, as I should like to describe it in detail. An American Rear-Admiral in place of a President, American officers for Cabinet Ministers, an American Receiver General to collect the revenues and an American bank, specially imported, to take care of them, an American country club with a golf course for the officers when they got tired of saving poor Santo Domingo about the middle of the afternoon—really, it is too much. I am running overtime at a ghastly rate. Anyway, there is one more matter which it would be a crime not to mention, if you will put up with me for just a little while longer.

High Finance

I refer to the pæans of praise which the Occupation bestowed upon itself for its matchless efficiency. The most sickening of these is the 1920 report of Lieutenant Commander Arthur H. Mayo, acting as Minister of Finance, but there are others, unsigned, whose style, if I may call it that, betrays more than a random similarity. What was performed sticks out like an old-fashioned newspaper scarehead. It was not going to be Mayo's fault if any good the Marines did failed to live after them. The millions already in the Dominican Public Works Fund, which the Military Government began with, are deftly and inconspicuously hidden in the obscure places of the reports. Nothing is said about the accumulated share of the Dominican Government in the 1916 revenues, held up to starve out its legitimate owner, but at hand to help the new broom sweep clean. If there was not over a half million dollars of this, there is something crooked about it, as the amounts collected from August on are a matter of record, adding up to nearly a million and a half.

As to the incomparable wisdom of the administration, I will limit myself to telling you the two things this same Lieutenant Commander Mayo, sometime acting head of the Finance Department of Santo Domingo, is best remembered for in that country. One is his brilliant notion of having the government purchase the 1920 tobacco crop, warehouse it and hold it for a higher price. The warehouses leaked, and the price went down. Santo Domingo lost a little less than a million dollars on that deal. The other famous deal was the sugar requisition. This commodity was selling for 17½ cents a pound when Mayo got the bright idea of ordering a huge quantity of it held by the mills in their warehouses, so that the local price would not go to 30 cents. It sank to a little below 2 cents a pound, making a loss which was calculated by the lawyers for the sugar people at between $1,250,000 and $1,500,000. Let us be generous with Leiutenant Commander Mayo, and estimate the cost of his financial acumen in these two cases at only two millions of dollars.

When it came to paying the piper in the sugar deal, this eminent finance minister tried to beg off on the ground that the Dominican Government did not have the money to meet the loss. This is one statement which he never published in any pamphlets about his financial administration. He was going to refuse to pay. The American Government ruled against him. Then he got out of the pinch by threatening to raise the money by a tax on sugar. This would have been illegal under an Agricultural Franchise Law of 1911 if there had been a constitutional government, but such things were no obstacles to this military group. The sugar people swallowed a huge loss for which the talented Navy financier was wholly responsible, rather than see the tax imposed.

Let's take just a glance at one final phase of that boasted financial efficiency—a phase which I have never seen adequately treated. Suppose all the high officers of the American Governemnt were supplied and paid by a foreign

power, without any tax whatever upon American revenues. This is merely a change of names. The United States Navy paid the high officers of the Dominican Government, including the wonderful Minister of Finance, so well heralded by himself. At one time, the sum thus sent to Santo Domingo amounted to $1,500,000 a year—which was also quite encouraging to the merchants, don't you think? In fact, there are plenty of consular reports showing how discouraged some of them were when the Marines got out.

A Resolution for Americans

In the letter asking me to come here, it was suggested that I arrive primed with a resolution. Resolutions are out of my line, and I never thought of presenting one until a few minutes ago. It seems to me, without due reflection, I admit, that the following one may convey the point I have just tried to make:

"Whereas, This body is convinced that a naval administration is a godsend to any country, saving money on the budget, eliminating the pork-barrel, providing an efficient police service for nothing, charging the salaries of all high officials to foreigners and putting their money into circulation; be it

"Resolved, That the British Navy be asked, and beseeched if necessary, to take over the United States for a trial period of six years."

Time is wanting to discuss private business. I keep running across companies which claim to own a half million acres or so of land in Santo Domingo, where the total is only about twelve and a half millions. While I am not prepared just now to give a figure, it is safe to say that we claim as large a fraction as the Church held of France before the French Revolution. The sugar plantations and mills have the highest valuations of any foreign enterprises. This business brings in Haitian and British West Indian

laborers at sixty cents a day, the standard wage. At home they get even less. What can be done toward improving the standard of living among wage-earners while this situation continues?

Imperialism at Work

Moreover, the labor is seasonal. It is foreign. It must be returned home after harvest, as the Dominicans do not want this kind of immigration. At the other end of the scale is the management, and the technical personnel. It is almost entirely foreign also, especially American and Italian. Where do the Dominicans come in on the sugar business? If there are any revenues, they are collected for interests in New York, Genoa, Havana, etc., for the foreigners who own the plantations or own stock in them. There isn't any export or production tax on sugar, and the wages bill is small.

Furthermore, the seasonal character of this industry is a disturbing factor in the entire agricultural system of the country, as well as in the labor situation. The big plantations on which sugar is cultivated tend to discourage the raising of grain crops, which require more intensive cultivation, and, in the tropics, very much smaller plots. Santo Domingo had a kind of a system of small ownership before the days of sugar. The plantation owners want title to big tracts, and the general tendency is to destroy rather than build up the farmer-owner type of cultivation which Europeans have been trying painfully to create for decades. There is already too much cropping for export in Santo Domingo. I suspect there is too much sugar grown in the West Indies.

All this condemnation of the Marines that we hear, let me say in closing, seems to me a little beside the main point. There are worthless and idiotic people in the game of professional soldiering, just as there are in colleges and in the ministry. I don't know whether they do more dam-

age in the first case, or in the last two. Having soldiered and scribbled around a number of wars, I happen to see that point of view, and rather to like the adventurous type of person—in his proper place. There is this comforting reflection for the future: we can hardly find any way of predicting the damage a fool preacher or professor might do; but we can guess pretty accurately what a group of men recruited, organized and disciplined like the Marines will do in a given situation. If we dislike the prospect, the thing to do is to keep them at home, not send them out first and then curse them afterward for acting as we have carefully drilled them to, in publicly supported institutions.

There are Cavell cases wherever there are armies. After all, Edith Cavell was clearly guilty under military law, was she not? The German officers who went through the routine operation of registering this fact were doubtless so intent upon doing their duty that they took no time to consider whether the full penalty was wise, as well as legal according to the code of their profession. Now the Marines are also fine soldiers, carefully schooled to a certain rigidity of attitude, and liable to the kind of oversights, in matters where non-military mass opinion is concerned, which may be very costly to the good name of the country they try faithfully to serve. I think the case of Fabio Fiallo in Santo Domingo did the United States fully as much damage in world opinion as that of Edith Cavell ever did Germany. He was a newspaper editor, a poet and an ex-minister of state, known for his verses wherever the Spanish language was read. A military tribunal found him guilty of sedition, put him in stripes and shut him up in a sixteenth-century prison. Like a flash, the indignation of the Latin world blazed out against us as tyrants and oppressors of weak peoples. All that Woodrow Wilson had said and done in a lifetime on this subject was wiped out in a week, and more with it. How could it have been avoided? Simply by avoiding the responsibility of a mili-

tary government, as might have been done in the case of Santo Domingo, even at some cost.

The same sort of criticism has been leveled at us for the administration of Haiti. Only the day before yesterday, I had a letter from Editor Chauvet of the *Nouvelliste*, telling me that Charles Moravia is in jail for the second time this year. Moravia is the editor of another paper, *Le Temps*. His case is more or less distressing. He is a man of vast culture, and has filled the positions of Consul General at New York and Minister at Washington. His crime is that he cannot forget the ineligibility of Louis Borno, President, nevertheless, of the Haitian Republic and at this moment visiting the United States with the American High Commissioner—a Marine officer. Article 73 of the Haitian constitution states clearly that a man whose father was not a Haitian citizen who has never renounced that status cannot be President. Louis Borno admitted in a letter written in 1891, of which I have a facsimile copy, that this was not the case. He is the legal President only because the Supreme Court says so. Apparently actual facts and legal facts are not the same in Haiti—or perhaps it is purely a question of who has the force. At any rate, we get some of the odium for the way we let President Borno treat editors. It was Moravia's valedictory which got him into prison. He said merely that it was hard for a man to leave his native land because he could no longer make a living at his profession there because of the persecution of the government, and was tired of living in jail most of the time. They clapped him in jail at once, and wouldn't even allow him to go into voluntary exile.

It may be that there are irresponsible states, just as there are irresponsible people, and that foreign control is sometimes the least of evils. I think we might entertain this proposition, without either admitting or denying it. If military governments are really necessary, they stand very much in need of improvement. As it is, the only cer-

tainty seems to be that they destroy good will between the parties, and invariably give rise to incidents which lead to charges of atrocity, mismanagement and imperialism. The general direction of the exit from this situation, it seems to me, is that of international organization. It is conceivable that an international body might decide when supervision is needed without the vituperative charges of self-interest which accompany such moves by individual nations. If the fear of annexation could be completely removed, the friction of administration and police might also be much less.

As to the more intricate problem of economic penetration, the speaker who is to follow me knows a great deal about it, and I will now get out of his way.

Economic Imperialism in Cuba

Dr. Barnes: Of all the areas of American intrusion overseas, I think there is no doubt Cuba has received a larger place in American sentiment than any other single area. I am very glad we have with us Dr. Leland H. Jenks, formerly of Amherst College, who has also made a most thorough study of economic imperialism which will be published in the fall. It is with pleasure that I introduce Dr. Jenks who will tell us about some of the important aspects of American intervention in Cuba.

Dr. Jenks: I have no horrifying details to present regarding the relations of Cuba and the United States, and would not present them to horrify if I had. In my judgment the great weakness of radical movements—I was about to say all movements—in the United States, is their tendency to consume their own time and other people's in sentimentalizing, in self-indulgence, in thinking how wicked the world is. The object of the investigation upon which I am engaged with Professor Barnes and others runs counter to this tendency. Before crying out to high heaven

about the wrongs of Cuba, we propose to find out what is going on. If this proves objectionable, it will next be in order to inquire what can be done about it.

If Cuba is to be called a case of economic imperialism, I must be permitted to define the term. By "economic imperialism" I mean the control of the economic life of a country from without; that the spirit of enterprise which dominates that life resides outside the country. I mean control by that spirit of enterprise, whatever technique it employs. Marines are not necessary; the hope or refusal of a loan, the movement of bank deposits, the manipulation of discount rates and other prices, the direction given to invested capital—these are sanctions which can dominate the life of a people without open trespass on the particular form of politics to which we are addicted. It is much more useful in many ways to think of the westernized world as revolving about half a dozen centers of enterprise, rather than as divided geographically into nations. New York is such a center of enterprise, and Cuba is in most respects more completely dominated by New York than is California. This is especially true in the sugar industry.

Sugar and Cuba

Cuba is not a part of the United States, never has been, and the probability that she some day will be is becoming steadily more remote. There are fourteen states of the Union raising beet-sugar, whose votes in the Senate would in themselves be practically enough to block the admission of the cheapest cane-growing region of the world to the protection of our sugar schedules. Cuba's political relations to the United States are defined in the Platt Amendment, incorporated in a Permanent Treaty and made part of the Cuban constitution. This prevents Cuba from parting with any or all of her sovereignty; it blocks her from borrowing more money than she can pay interest upon; and it legalizes intervention by the United States in case government should

break down in Cuba or in case some other power should intervene. The ostensible aim of American intervention in such a case would be to preserve the independence of Cuba. Our government has proceeded on the theory that we may some time be involved in war, and that we can take no chances of an enemy being able to use Cuba as a base against us.

Another Banking Policy Wanted

The most dangerous feature of this war between cane and the beet is that Cuba has been induced to stake everything upon cane. She is essentially a one-crop country. She can never have any sort of economic security so long as she depends wholly upon one crop whose marketing she can not possibly control. It is Cuba's misfortune that the American banking interests which have gone there have been so largely those identified with industrial banking. It is not difficult to believe that another banking policy, a policy not based upon paying 3 per cent. to encourage savings deposits and exacting 10 per cent. to 12 per cent upon mortgage security, a policy directed positively toward the diversification of Cuba's economic life, would be the best help the United States could give to Cuba.

Cuba has not been helped any more by the intermeddling of the bond salesmen than by the intermeddling of generals in need of big jobs in peace-time. But Cuba is not much different from agricultural areas of our own country in this respect. She is simply a conspicuous example of the failure of a banking mechanism developed about the financing of foreign trade, and the marketing of securities, to serve agriculture fruitfully. But there is this urgency about the matter. A stable Cuba can not endure upon the basis of one-crop latifundia managed by absentee proprietors as an adjunct to business war in a foreign land. The Cubans accepted this arrangement after the Spanish-American war, when our army occupied the island and proposed to remain until they did accept. However, they have them-

selves asked for some arrangement to guarantee internal order in Cuba, in order to encourage American capital to come there and develop the island.

The United States government has formally intervened but once, in 1906, when the president and all his cabinet resigned and the Cuban legislature refused to elect a successor. There was no government in Cuba for 24 hours. We then took charge, as we had a legal right to do, and as we were bound by treaty to do.

A Policy of Intermeddling

After we had conducted an election and turned Cuba over to the Cubans in 1909, we commenced a policy of continuous intermeddling in Cuban affairs. This was a policy in flagrant violation of the pledges given by President McKinley and Elihu Root at the time the Platt Amendment was adopted. We tried to get Cuba to recognize our meddlesomeness as "preventive" intervention. From time to time when there was an uprising, we landed troops to protect American property. We interfered officially in legislation. We held up a concession until our consul could get into a raft and cross a swamp to report that it was probably valueless. We held up an amnesty bill until the proceedings of a criminal case could be sent to Washington and reviewed. The State Department under Bryan and Wilson was no better than under Taft and Knox in this respect. Our interference culminated after the financial crisis of 1920 when the bottom dropped out of the sugar market.

General Crowder was sent to Cuba on a battleship as "personal representative" of the President. This was a status not known at international law. It was lawless. If it meant anything it meant that Crowder impersonated the President of the United States in Cuba. It became menacing when our minister to Cuba resigned, and we remained without ordinary diplomatic intercourse with the island.

Crowder addressed himself directly to the President of Cuba in tones of authority, not through diplomatic channels. He upset one cabinet and approved the naming of successors, who were naturally more solicitous to please him than to satisfy the elected president of Cuba.

Actually government and country were in a serious economic condition. The government was in default upon several categories of her debt, including her war debt to the United States. The situation was finally adjusted by means of a loan law and revenue measures virtually dictated by General Crowder, assisted materially by the personal confidence inspired by Mr. Dwight Morrow of J. P. Morgan & Co. who finally secured the loan. A fortunate rise in the price of sugar caused Cuba's finances to flourish so that, by 1923, all pretext for continuing the illegal situation had disappeared. Crowder was demoted to the rank of mere ambassador; President Zayas chose a cabinet to suit himself; and Cuba paid off her war debt to the United States before any European government had so much as agreed to do so.

National Pride Awakened

All of these things would probably have taken place had General Crowder not been sent to Cuba. His irregular mission was an unnecessary affront to the national feeling of the Cubans. It had the effect of awakening a degree of national pride in the island which had not heretofore existed. The fact that, despite the personally conducted intervention of General Crowder, Cuba had a place in the world as member of the League of Nations had something to do with this feeling. Her brilliant citizen Dr. Sanchez de Bustamante was in these years made member of the World Court, and another citizen, Cosme de la Torriente, was made president of the League Assembly. A reform movement gathered in Cuba, which focussed about the campaign of General Machado for the presidency. Amer-

ican corporations doing business in Cuba contributed heavily to the Machado campaign fund. He was elected about a year ago on a platform of clean government. He was succeeding amazingly in this, and without interference from Washington. He proposed frankly to abolish the Platt Amendment by disuse. His was a nationalistic government, appealing openly to the business classes of Cuba for support, and endeavoring to make trade agreements and enact other legislation in their favor.

Classes of Population in Cuba

There are business classes in Cuba, quite apart from the immigrant shopkeepers from Spain, who do most of the retail business. They thrive on real estate development and public contracts. They own some local industries and manage most of the agricultural operations. They are not easily cheated. There is a "farm bloc" in Cuba, an organization of large-scale sugar producers who were seeking to obtain business advantages by legislation. They are quite as opposed to labor agitation as the American companies. They cordially support the Machado policy of deporting alien labor leaders by the hundred. Improved housing, recreation facilities, and similar services have been brought about in many Cuban-owned sugar mills to meet the competition for labor of American companies which have introduced these features of employment policy. The aristocratic and political classes in Cuba are quite shrewd enough to look out for their own interests, and at last reports were doing so.

Control of American Banking Interests

One of their chief interests is to secure continuous supplies of fresh capital from the United States. Interest rates are appallingly high in Cuba, 10 per cent. to 12 per cent. on prime mortgages, despite the fact that American

banks have branches all over the island. Interest rates were no higher under the Spanish regime, and mortgages were less inexorably enforced. The hope of keeping up the flow of American capital, and the dependence of Cuba upon the American market for the disposal of her enormous export crop of sugar, are ties which bound the island to New York. This is how it came about that a predominant position in the economic life of Cuba has been concentrated in the control of about a dozen bankers, brokers and refiners in New York and Boston. It is this control, rather than the political conduct of the United States, which is causing concern in Cuba to-day.

A Summary

The situation in summary is as follows:

Seventy-five per cent. of Cuba's sugar, which amounts to 90 per cent. of her entire exports, is produced in mills which are American-owned, or which are controlled on mortgage or operating agreement by American and Canadian banks.

The public utilities in the cities are all controlled by the American & Foreign Power Co., which was until recently a subsidiary of the General Electric Co., and is still closely identified with it.

Of the two principal railway systems, one is controlled by a voting trust sponsored by the National City Bank, the other is a British concern, operated from London.

The banking of Cuba, foreign and domestic, is 90 per cent. in the hands of three American and three Canadian banks, of which the National City Bank and the Royal Bank of Canada are most widely extended. The Federal Reserve banks of Boston and Atlanta have branch agencies in Havana for the issue and retirement of currency. Thus Cuba is part of our Federal Reserve banking system.

Subsidiaries of the American Tobacco Co. own the largest factories manufacturing Havana cigars.

The only producing mines in Cuba are owned by Americans, the iron by the Bethlehem Steel Co., the copper by the American Metals Co.

Docks and shipping facilities are largely in American hands.

It has been estimated that a fifth of the soil of Cuba is owned by citizens of the United States. The branch factories and wholesaling enterprises we have set in operation in Cuba defy enumeration. Current estimates value these property holdings all the way from one to two billion dollars.

Most of these business interests have no desire for any disturbance of the present situation. They have no desire for gestures of intervention. Most of the concerns doing business in Cuba are public companies, interested in maintaining a wide market for their securities in the United States. That is why investment bankers are so active in their management.

A disturbance of the situation in Cuba would not be beneficial to those securities. The companies are interested especially in the price and steady marketing of sugar. So far as they know what they are about, political stabilization, rather than romantic imperialistic adventure, is what they crave. At a Citizens' Dinner to President Machado a year ago, Mr. Dwight of J. P. Morgan & Co. made this the principal point of his address as toastmaster.

> It is of the utmost importance, [he said] that American business men who have property interests in Cuba should assist our government in every way to keep its pledge to the Cuban people. American business men who have differences with Cuban people should first seek remedies for their alleged wrongs through the ordinary channels in Cuba. They should not look to Washington.

I could quote the President of the American Chamber of Commerce in Cuba to similar effect. I encountered very few partisans of the bayonet type of imperialism and they are arranging to get out.

But there are other ways of harming a nation besides landing marines and installing personal representatives. The tendency of the growth of the Cuban-American sugar industry has been to transform Cuba from a large number of self-contained farms and plantations into vast latifundia, centering about immense mills, whose private railways stretch out like tentacles over the surrounding areas. The economic freedom of the Cuban countryman has been largely destroyed, although his standard of living has definitely improved. An American of intelligence who has been in Cuba ever since the Spanish war summed up this change for me as follows:

Twenty-five years ago the rural Cuban squatted on the piece of land which produced most of what he needed for food and shelter with perhaps something extra which he could exchange for rice and cloth. The coming of the sugar industry on a large scale has completely changed his world. He now finds himself a part of a great industrial enterprise from which he receives his wages and which furnishes him a house. It has placed him in the stream of modern industrial progress. But he has no part in directing this industrial giant; he has no voice in its management. Yet to it he must look for education, recreation and bread. He has, willy-nilly, exchanged a simple life, ignorant but virtuous, for a vassalage to a foreign colossus. His future is not his own. It is determined for him in a directors' room in New York.

Cuba and Sugar

Now the interests of New York directors are by no means those of the Cuban countryman. Cuba has become the victim of business rivalries in the sugar industry. The price of sugar to-day is low. The reason given is that production has outrun demand. This increase in production has nowhere been more abnormal than in Cuba. Since the war, since the collapse of the sugar market in 1920-21, Cuba has increased her crop from four million tons to five

millions. This increase has been made chiefly on the property of half a dozen great North American organizations. There is reason to believe that the overproduction was to some extent deliberate and intentional. It was intended to drive some one out of business who was not so favorably located as these companies. The enemy was not the independent planters in Cuba. The enemy was the beet-sugar interests of the United States, which have flourished under high tariff protection so of late that they have forced the line of competition with cane sugar east to Buffalo and Pittsburgh, and were quoting sugar half a cent below the New York price in their own territory last summer. Championed by Senator Smoot these interests have grown strong enough to dictate tariffs, to control the action of Presidents, to cause public documents to be withheld from public view for years after their preparation. There is war to the death between these interests and the Cuban-American sugar industry which rests upon cane. Some one will be squeezed out. Some one will have to stop producing cane. And independent Cuban producers, unable to borrow money upon crops of sugar, may be among the victims.

Bolivia

Dr. Barnes: The important aspects of American imperialism in Bolivia relate to a great loan in 1922 of thirty-three million dollars to the payment of which was pledged about 40 per cent. of the entire Bolivian revenues, with this arrangement that a commission of three, two of whom should be appointed by the bankers who took care of this loan, shall have complete supervision of the collection of Bolivian revenues. We have here a commission made up of foreigners, and either made up of or appointed by the American bankers who made this loan, actually in control of Bolivian finances which will pledge Bolivia for a period of about one-quarter of a century to the supervision

of its financial life and collection of revenues under foreign control. This may work all right if the Bolivian tin output continues on its present level at the same prices. Under those circumstances, Bolivia will be able to meet this loan without any foreign intervention. But should the tin output fall greatly and prices fall, then you have a situation somewhat resembling that in Santo Domingo where the failure of Bolivia to meet the payments on this loan would necessitate some sort of political intervention in Bolivia, a unique situation for a South American country.

Bolivia is the third largest country in size in South America. We have the third country in size in South America with its revenues supervised and controlled for the next quarter of a century under a commission of foreign bankers. Were it probable that any serious disruption of the tin industry should take place, or any great fall in the price of tin eventuate, we would have political intervention and a serious situation because there is no doubt at all that Argentina, Brazil and Chile would be much more sensitive about political intervention south of the Equator than in the case of American intervention in the Caribbean.

The Bolivian situation is not particularly distressing at the present time, It may work out very well. It may not. One can't tell what will be the case. But it presents a very interesting situation and one with serious possibilities. The following is a communication regarding the situation here from Margaret Alexander Marsh:

The Problem of Bolivia

The significance of Bolivia as a problem in modern imperialism lies principally in three factors: an abundance of raw materials, a lack of domestic capital, and a primitive native population, essentially agricultural, with neither the inclination, the means, nor the ability to develop the country. The last of these is possibly the most important for, whether the Indians, who are almost 50 per cent. of the

population, wish it or not, their country is being opened up, a process which will continue so long as there are to be found there natural resources valuable to modern industry. But the effect of this development will be to impose an industrial civilization on a people as simply organized as the Indian of Inca or even pre-Inca days, and as unready for large-scale production and the complex organization it requires as the Spanish colonies were for the political democracies that were set up throughout Latin America early in the 19th century. True development of a country must be based on the education and development of its people, so that they can share in its growth and meet the problems that growth invariably raises. Development on any other terms is unsound, for, instead of improving the condition of the country, it is likely to prove injurious, draining the country of its resources without contributing a great deal to its progress, and involving it in difficulties with other nations with which it is not prepared to cope. Such was the case with Mexico under the Diaz régime; such is likely to be the case with Bolivia.

The Economic Life of Bolivia

The Republic of Bolivia, the third largest country in South America, covers an area as large as all the territory east of the Mississippi, excluding the New England States, estimates of its size ranging from 500,000 to 750,000 square miles. Two-thirds of the country lies east of the Andes Mountains in the low-lying basin of the Amazon river system, but some three-fourths of the population, and the political and industrial life of the country are centered in the high plateau to the west, at an elevation of 12,000 feet or more. Railway communication with the plateau and with the navigable tributaries of the Amazon, which would provide an outlet for the products of the agricultural, cattle-raising and oil lands in the east, may make that section of Bolivia an important element in the eco-

nomic life of the country some day, but for the present it is the plateau that lies between the two Cordilleras of the Andes that is of major importance. Here are located the large tin deposits, the most important in the world outside those in the Straits Settlements and Dutch East Indies and likely in the future to take first rank because of the approaching exhaustion of the Eastern deposits. On the plateau, or Altoplano as it is called, are other mineral deposits of considerable value: silver, copper, lead, bismuth and tungsten.

The principal railway development, the cause of much foreign investment in the past and the occasion for a good deal of the government's borrowing, is concentrated largely on the plateau, although there are projects afoot and surveys have been made for lines into and across the eastern portion of the country. Until the plantation rubber of the East reduced South American rubber to a negligible position in the world's rubber supply Bolivia had a resource of considerable value in the rubber forests of the northeast, but the decline in the value of wild rubber has, temporarily at least, robbed the low-lying region to the east of the importance this much sought-after product might have brought it.

The oil-bearing region of southeastern Bolivia, where large deposits of very high grade petroleum exist, will, as the oil is developed, tend to bring the eastern country into far greater prominence, and already the Standard Oil Company of New Jersey has sunk a large amount of foreign capital in that section. But with this important exception, the Bolivia of significance to-day is that third of the country which faces west rather than east, which is concerned with an outlet for its minerals to the Pacific, and looks with longing on Arica as a port and with bitter regret on the loss of its sea-coast and the since valuable nitrate deposits around Antofagasta. It is essentially a western country, with its problems those of the Pacific coast states of the South American continent.

American Capital

The raw materials that bring Bolivia into prominence as a field for capital investment and development are, as have been suggested, minerals, chiefly tin, petroleum, and rubber. The predominance of tin is shown by the fact that some 60 per cent. of the revenue of the country is derived from it. More than 94 per cent. of the total value of Bolivian exports in 1923 was in mineral products, and of these tin is by far the most important. The economic life of the country revolves around the price of tin, which is regulated in London, and fluctuations in tin quotations are reflected in the value of Bolivian money. The most prominent producer of tin in Bolivia is a non-resident Bolivian, Simon I. Patino, sometimes known as the Tin King, who controls the two principal tin mines of the country (The Llallagua and the Uncia), has a majority interest in two other important mines (Oplaca and Araca), and in 1924 was responsible for the amalgamation of the Llallagua and Uncia or Salvadora mines in the Patino Mines and Enterprises, Consolidated, incorporated in Delaware with a paid up capital of some $30,000,000 (capitalized at 50 million). American capital participates in this enterprise through the National Lead Company, which has a 4 per cent. interest in it. Its share in the Bolivian tin output is estimated at from 50 per cent. to 80 per cent. of the total of some 30,000 tons yearly. Patino and the National Lead Company are also interested in the Williams Harvey Corporation of England, the principal smelters of Bolivian tin, Patino owning about one-third of its shares.

But Patino's position in Bolivia's development is exceptional. With a few other exceptions of lesser importance, such as the Suarez Brothers in rubber (now under British control), the Bolivians have not taken the initiative in organizing large industrial enterprises. There is not enough domestic capital. Moreover, the high rate of interest in the country leads native Bolivians with capital to

invest it in banks rather than in stocks and bonds. Hence foreign capital, and particularly American capital, is being invested in Bolivia in larger and larger amounts.

Aside from the National Lead Company's investment in Patino Mines and Enterprises, Consolidated, and its share interest in the Oplaca mining company, the second highest tin producer in Bolivia, American capital is found in the Caracoles Tin Company, owned by the Guggenheim Brothers, capitalized at $40,000,000, with a paid in capital of $16,000,000; in the banking, commercial and mining activities of W. R. Grace & Company; in the Standard Oil Company of Bolivia, a subsidiary of the Standard Oil Company of New Jersey which has concessions on more than seven million acres in southeastern Bolivia and has already invested several millions of dollars in exploring and drilling; and to a small extent in the Bolivia Railway Company, which was an American enterprise, built under the Speyer-National City Bank contract of 1906, but most of whose stock has passed into the hands of the Antofagasta and Bolivia Railway Company, a British concern. The American engineering firm, Ulen Contracting Corporation, a subsidiary of Stone and Webster and hence affiliated with the American International Corporation and the National City Bank, has been active in recent construction projects in Bolivia, taking bonds for the works undertaken, as in the case of the 6 per cent. Sanitation Bonds of 1920, and charging a commission besides (according to the Potosi-Sucre Railway contract, $100 a day).

Americans Become Revenue Collectors

But the investment which most concerns us, as creating a potential if not an actual problem in American imperialism, is not so much the capital involved in these private industrial enterprises, although in a country as politically and socially backward as Bolivia these are likely to present the question of protection at any time, but the Bolivian govern-

ment bonds held by some eight or nine thousand American citizens under conditions which make their soundness as an investment questionable. In 1922 the Republic of Bolivia secured in New York through the Equitable Trust Company, the Stifel-Nicolaus Investment Company, and Spenser Trask (the part played by the National City Bank is a matter of rumor and conjecture although it is a fact that a plan for a similar blanket mortgage loan was drawn up by that bank in 1921 and preliminary negotiations were carried on between the Bolivian Consul-General in New York and the National City Bank) a loan of $33,000,000, of which $29,000,000 has been issued, at 8 per cent. interest, under the terms of which it pledged as security over 40 per cent. of the revenue of the country.

A previous option on the loan, which prohibited Bolivia from going into the open market for credit, and Bolivia's pressing need of money at the time, led to the acceptance of terms which have been severely criticized, most humiliating of them being *provision for a Permanent Fiscal Commission of three, two of them to be nominated by the bankers and one of these to act as chairman, who should during the life of the loan (25 years) supervise the collection of Bolivia's revenues.* Although the terms originally proposed by the bankers stipulated that one of the commissioners should be nominated by the United States Department of State, as finally executed the loan contract does not implicate the United States, except in so far as the Department's scrutiny of the contract at the time of its negotiation lent it silent consent. The price paid Bolivia, 91.67 on an average with an additional 2 per cent. to the "technical expert" in New York needed to secure even that price, though low for a bond bearing so high an interest rate and yielding the bankers a good 10 per cent. commission since the bonds were sold to the public for 101, did not compare very unfavorably with that offered to other South American countries or secured earlier in the European markets. But the very specific security required and the provision

for a supervision of the country's finances, a new feature in South American though not in Latin-American loans, placed Bolivia among the Central American and Caribbean states in the matter of credit, and resentment against the indignity and affront to her national sovereignty was voiced, although it is difficult to know how much of the protest registered was sincere and how much an expression of internal politics, since the Liberals, the opposition party, which had been ousted in the coup d'etat of 1920 after some thirty years of rule, seized upon the loan as the most important thing the Republicans had done and focussed their criticism on it.

With the exception of two other small American loans (the Yungas Railway loan of 1917 and the 1920 Sanitation Bonds, with $1,936,500 and $1,607,000, respectively, outstanding) the refunding loan of 1922 constitutes Bolivia's entire external debt, amounting to only $10 per capita. Although this is very low (Brazil's is double that amount, Chile's four times), and in spite of the fact that the presence of the Permanent Fiscal Commission is likely to make default of her external obligations doubtful, the question naturally arises whether a country like Bolivia, with a stationary and backward population and with a national income dependent to so large a degree on exports whose value fluctuates enormously, has not exceeded the safe limit of borrowing. The high price paid for the money and the internal obligations which some of the money was needed to meet, leaving little more than a third for constructive purposes (railways and highways), leaves an urgent need for further capital borrowings. But credit has already been strained, and there is very little unattached revenue of importance to offer by way of security. Moreover, the 1925 budget showed Bs. 19,375,830 out of a total estimated income of Bs. 44,636,350 devoted to the service of the national debt, the largest single item and over 43 per cent. of the whole, with only Bs. 3,892,247 assigned to education, a distribution of income ill adapted

to the social development of almost three million inhabitants.

Except for the humiliation involved in having her financial affairs scrutinized and supervised by a foreign commission, a thing that from a practical point of view may in the twenty-five years of the loan be a distinct advantage to Bolivia in introducing order into a system of internal finances that had become chaotic and wasteful, Bolivia has made better terms with the foreign capital that has come in of late than did Mexico or many another Latin American state.

Notably better is the concession made with the Standard Oil, which assures to the Bolivian Government 11 per cent. of the oil produced annually by way of royalty and preserves intact the nation's subsoil rights. The price paid for the Government's bonds, though low, is not, as has been suggested, very different from that offered other South American countries. But the fact remains that Bolivia is committed for the next twenty-one years to a debt service which, if the price of her major export, tin, should drop considerably, she would be hard put to it to meet. Moreover, as citizens of the nation, the million and a half or so Indians unconsciously shoulder the burden of these obligations, though they understand nothing of foreign debts or industrial development, and, except for laboring in the mines, live lives very little changed by the coming in of foreign capital, most of them on the verge of starvation whether members of free Indian communities or bound tenants of white proprietors.

The material development of Bolivia will go on, nevertheless; foreign capital will doubtless continue to enter the country; more money will probably be borrowed, though with poorer security and hence no doubt on more onerous terms. Meanwhile the great bulk of the population will continue to chew coca leaves to stay their hunger, to plow with a forked stick, and to live lives as removed from the

twentieth century almost as did their ancestors at the time of the Conquest. The basis of a sound investment is not there; bondhouses now rate Bolivian securities only as fair, even though her bonds sell at par, a "business man's" but not a "conservative" investment. The yield is high; the risk also. This the 8,000 odd holders of Bolivian 8's of 1947 should understand, and be prepared to face the losses such risk involves without recourse to our State Department.

Difficulties in Coming Years

The problem then is more one for the future than the present. There is already some resentment against the Permanent Fiscal Commission, but so far as one can judge from this distance this is largely a matter of internal politics. There has been resistance to the tax reforms instituted at the instance of the Commission, on the part of the producers of tin and other minerals, but this comes loudest from a Bolivian himself, so that the party opposing them was known as the Patinistas. Resentment or suspicion of the Bolivian at the introduction of foreign capital does not seem yet to have set in; the mestizo and white classes welcome it, believing that it means the development of their country along modern lines and increased prestige to themselves; the Indian does not object for, as yet, the foreigner has done little to rob him of his land, the unscrupulous mestizo and the native white Bolivian being much more his enemy in this respect. But the country would seem to be developing beyond its potentialities, humanly speaking, which means, as in Mexico, difficulties for the generations to come if not for this one. These difficulties can be avoided only by an understanding from the start of the conditions under which foreign capital enters and of the terms on which it should operate there. It is with a view to describing these conditions and of suggesting these terms that this study is made.

General Discussion

Chairman Thomas: You have before you the general imperialist situation—Professor Barnes' outline, Mr. Dunn's particular comments on foreign investments and their relation to the problem and the description of the three types: The Santo Dominican type with intervention which has now been withdrawn but leaves its aftermath; the Cuban type where at present there is not military intervention nor likely political intervention, and the Bolivian situation.

Mr. Stolberg: I am asking a group question. Can you tell us to what degree have these countries, which are directly connected with American imperialism, labor movements in the modern sense and to what degree the governments are consciously trying to counteract these tendencies. Are they nationalist, Socialist, or liberalist, or what are they?

Mr. Barnes: In Bolivia it is chiefly a political struggle between the Liberals, who were out of office at the time the loan was negotiated, and the Republicans, so-called, who negotiated the loan and it is purely a political struggle without any reference to the labor situation. The laborers are Indians in the servile state, most of them culturally lower than the Incas were in Peru when they were discovered in the Colonial period. So there is nothing in Bolivia of any significance at all. The Indian is more or less unconscious of what is going on. But I should be glad to have Dr. Jenks and Dr. Knight tell us about the situation in Santo Domingo and Cuba.

Dr. Jenks: There is a labor movement in Cuba. There have been two in fact, one of Spanish origin, syndicalist in nature but influenced by certain Bolshevik tendencies. That has been pretty thoroughly stamped out by the deportation of all the leaders.

There remains a certain labor organization in Cuba, more of the type of the A. F. of L. And, as I understand it, they have recently become affiliated with the Pan American Federation of Labor. The railway brotherhood is the strongest labor organization in Cuba, although just last month they were rather disastrously defeated in a strike which they had attempted. The tobacco growers are also organized I think with fraternal relations with tobacco organizations in this country.

Mr. Edward Levinson (New York): Mr. Barnes, if I remember, suggested that Russia is eliminating some features of imperialism which exist generally in other countries. I am very much puzzled by the Georgian situation. Do you think the overthrow of the Georgian Republic by the Soviet régime has anything to do with the imperialist tendency, particularly remembering the great oil fields?

Mr. Barnes: I imagine there is a certain economic element there of significance and it is likely to continue to be such as long as a country needs these resources. When one country becomes socialistic if it has to do with a world supply of raw materials, which is primarily controlled by capitalistic states, it can't do exactly what it might in a world society made up of socialistic states which had begun to produce for service rather than profit. We can't judge that on the basis of what one socialistic state does. The Russians are nothing if not realistic and I have no doubt where they find their economic life is involved in the maintenance of an adequate source of raw materials and they are unable to get capitalistic states of the world to agree upon a common program of utilizing natural resources for the good of the world in general, they will be forced indefinitely to maintain at least a mitigated form of imperialistic control. It is a thing I marvel at, the degree of restraint which the Bolsheviks have exhibited in their atti

tude toward the other nations of the world with respect to economic imperialism.

MR. FEINSTONE (Philadelphia): Doesn't it appear to you from your studies that there is a conscious conspiracy on the part of the industrial interests of the United States to separate those Americans who have some savings from their savings and thus to try to maintain the continuance of the shipment of commodities to European and other countries? In other words, continuing the so-called prosperity? I refer, to make this clear, to Mellon's telling the American people that we are funding the debt with Italy. We are accepting a check from Mussolini for $5,000,000 and now it is safe to give him $100,000,000, which the Americans did, and it seems to me Mellon should well know, as some economic students do know, that Italy will never be able to pay.

MR. DUNN: Let's leave that in the form of a statement.

MR. EPSTEIN: Does it appear to you that there are after all two different interests, the industrial interest and the investing interest? In other words, it is to the industrial interest's advantage that those who have the estates, or the so-called widows and children that have something to invest, should buy European bonds and enable Europe to keep on buying commodities here by making further loans?

MR. DUNN: I think there are several conflicting interests, of course.

Attitude of A. F. of L. on International Problems

MR. SOULE: Just a general remark. The situation has been very well stated this morning but there remains a problem which I am frankly very puzzled about and which it seems to me we ought to direct our attention to.

Is the conclusion from all this that capital from one nation ought never to be invested in another nation? As we all know the United States was largely developed by foreign capital. As we all know, every European country now needs capital which it cannot obtain except from the United States or possibly Great Britain in order to restore economic life. This does not apply merely to the so-called capitalist countries. It also applies to Russia, which needs and is very anxious to have, under proper conditions, foreign loans. What are we going to do about it? How is the situation going to be regulated so that capital which has been accumulated in one country can be extended to another without these dangerous conditions which have been pointed out? It seems to me that is rather a great problem ahead of us.

In the second place, a minor matter, a report on the side by Mr. Dunn to the effect that the American Federation of Labor is supporting the American government and Mr. Hoover in capitalist imperialism. I don't know on what facts he based that remark. But I happen to have had occasion to review the official action of the American Federation of Labor in International affairs during the last year or two—God knows, the American Federation of Labor has enough to answer for in the war years—and it doesn't seem to be fair to pass over the things they have done which appear to be on the right side. Officials of the Federation have frequently expressed their doubt as to the wisdom of the Dawes Plan and as to the wisdom of the plan under which we collect the war debts of European nations, and have brought active influence to bear either to cancel those debts or reduce them to lowest proportions.

At the time when Secretary Kellogg issued his uncalled for statement on Mexico, the President of the American Federation of Labor issued another statement in direct opposition to Secretary Kellogg, warning the government against intervention in Mexico.

The American Federation of Labor has tried to assist

labor movements in the West Indies and in South America because of their friendly relations in these various countries. At the time of the Shanghai strike, they passed a very forceful resolution in support of the Chinese strikers and against the policy of financial intervention in China, stating that China ought to have power to fix her own customs duties and run her own affairs. I didn't come across anything in the way of official action by the Federation during that whole period which seems to bear out Mr. Dunn's statement, except in regard to the recognition of Russia. And it seems to me in an examination of that condition it would lead one to the conclusion that it does not result so much from the desire to help American capitalistic interests to imperialism, as it does from the dislike of the point of view of Communism, and its activities in the American labor movement.

MR. DUNN: I think that I would be subject to correction on that. I didn't know that there were very many officials of the Federation of Labor who had questioned the Dawes Plan for Europe. I thought that most of them were generally agreed that that was a thing that pretty much had to be and accepted it.

The objection of the Federation of Labor to Communism, of course, dovetails very closely with their opposition to any group of people who may be connected with the Communist movement in these countries, some of whom have formed an anti-imperialist league which stretches even into countries where there is hardly any labor movement yet. And the blanket opposition of the Federation of Labor to the policy of the anti-imperialistic work of these people, attempting to discredit it because it was Commuism, was largely the basis for my feeling that they were wholeheartedly going along with any group that was working in that direction. And I have yet to see them take any great initiative in forming an all Pan-American anti-imperialist organization against imperialism. I don't consider the

Pan-American Federation of Labor very much of a step in that direction but I am subject to those corrections that you have made.

MR. WOODBURY: I should like to ask what steps for popular education have been taken in Cuba within the last decade?

DR. JENKS: Theoretically, there is compulsory public education in Cuba. Actually there are not schools for more than half of the children who ought to go to them. The illiteracy is high, fully as high as among the negroes in Mississippi and perhaps higher.

MEMBER: Dr. Barnes in his statement said that we will practically have imperialism even under socialism. First of all under Socialism we intend to have production for use rather than for profit and to have our home markets absorb the surplus.

Secondly, under socialism, with all pulling together, there will be a wider distribution of the raw materials of each and every country, taking down the barriers of tariffs and taxes and so on. I don't see how Professor Barnes is so sure under socialism we will have imperialism.

CHAIRMAN THOMAS: Can you carry on a sort of policy of isolationism in regard to nations, of keeping capital within our own country? If you can't, or if you ought not, is there any concrete suggestion to be made now? And wouldn't perhaps international socialism work? All of these questions Professor Barnes will answer in four minutes.

Socialism and Imperialism

PROFESSOR BARNES: In regard to imperialism under socialism, I think we would have to make a distinction be-

tween an ideal socialistic world where all states are organized in socialistic fashion and where this altogether desirable program of production for service in place of production for profit had actually been attained. In such a situation imperialism would practically disappear by definition anyhow. On the other hand, it is unlikely we will be able to socialize the world all at once and socialistic states will be competing with capitalistic states and will find it necessary to maintain to a certain degree the realities of getting raw materials, finding markets and getting capital and things of that sort. And further than that, I doubt if we could have some mythological and theoretically rapid cataclysmic socialization of the world so we would readjust the matter of raw materials and things of that sort which would be necessary, with any such degree of rapidity as to make imperialism disappear over night. It would be a gradual process of mitigating it.

But I expect a mitigation of capitalism in the socialistic society. I don't foresee any immediate or rapid socialization of the world although we will find socialistic states competing with capitalistic states and there we will find a considerable check on capital.

As to how we are going to get investments and at the same time protect ourselves against the more or less unfortunate aspects of capitalistic imperialism, I will pass that on to my colleagues. Perhaps Mr. Dunn can offer the first sugegstion.

Mr. Dunn: I was just thinking about another matter and didn't hear exactly what Professor Barnes was saying but one point I did want to make was this, that if the investments that are made in foreign countries could be made under the same conditions that investments are now made in, say, Soviet Russia with such protective labor legislation and so on as prevails there, one would not need to worry very much concerning the state of labor and the masses of workers abroad under such a régime of invest-

ment. For the Soviets in the first place are very careful of the kind of capital they bring in and the strings that are connected to it. Further, they enforce all the labor laws that they have existing in the rest of their territories, in the territories where the money is invested.

Now as to the general proposition of what we are going to do about these countries where money is invested, I must say I think nature will more or less have to take its course. So long as we insist on having our coffee and our bananas and all the rest, I don't know of any way of getting out from under the United Fruit Company or the tobacco interests, etc., who go into these South American countries and pay labor sixty cents a day. The only prospect of hope would lie in those who believe in all kinds of regulatory processes, trying to effect them in any countries where we have any control at all and trying to get our state department not to intervene, as Wheeler's resolution suggests, in countries where capital has gone, and not to send the army and navy. That would save us some strife I should say, but generally speaking the only hope one can point out in the long run is the development in these countries where our money goes of a movement of the workers, even though they are so backward now as scarcely to have labor unions, so strong that it could definitely resist the encroachments of capital and build up at first and necessarily a capitalist civilization. That seems to me the logical process and I am still groping for answers to that same question.

MR. KNIGHT: It does seem it would be better to have international banking laws. It is impossible for anybody to find out what the actual capital is on which the National City Bank in Santo Domingo works. As far as I can find out, they work on receivership deposits. They go into lines of business which wouldn't be considered legitimate business for a bank in this country. They lend money on sugar in warehouses and things like that. At the outset, it is impossible to stop the export of capital. But you could

cure a great deal of it by having the rudiments of international banking regulations.

CHAIRMAN THOMAS: May I say it might interest this audience to know there has been a resolution introduced by Senator Shipstead—not Wheeler—the substance of which is that the debts of American citizens shall not be collected by the public force of the American people. That would alter the investment situation. It wouldn't cure everything; it would not necessarily stop foreign investments, but it would check the rapidity of them and might make for a favorable atmosphere. I should say it would not be a bad thing to back up this particular resolution.

DR. JENKS: I would concur quite emphatically with Mr. Knight's statement that it is quite impossible to prevent the export of capital and I further feel that it would be undesirable for the government to take any steps toward its regulation. If the government undertook to regulate the export of capital obviously it would therefore incur certain obligations with reference to investors who did send their money abroad, which is precisely the object of the Shipstead Resolution to prevent.

SECTION VI. THE NEW PROPAGANDA

McAlister Coleman Deals with the Present Situation

AT the final session of the June Conference on the "New Propaganda," McAlister Coleman, journalist, delivered the principal address.

McALISTER COLEMAN: To the serious student of the American scene, if indeed one can keep his sanity while gazing upon contemporaneous capitalism at work, there is nothing more amazing than a glimpse into the offices of a modern press-agent, or as he would prefer to be called, "Counselor on Public Relations."

"Counselor on Public Relations"

Amid luxurious surroundings that even the largest newspapers would not dare to rival, recent college graduates under the tutelage of one or two newspaper veterans are rushing about in a state of pop-eyed excitement, telephoning, grinding out copy on electrically-driven typewriters, calling for messenger-boys, generally behaving as though a breathless public were hanging upon their every action. A city-room just before press-time is a place of comparative calm alongside a modern propaganda mill stripped for action.

The bewildered visitor who asks what all this feverish bustle is about, is informed that a client of the agent's is about to deliver a speech on "America's Red Menace and How to Stamp it Out" before the American Association of Patriotic Brokers' Clerks and that every word of this immortal effort must be in the hands of the newspapermen

by the time the client rears to his feet and commences with the joke about the two Irishmen.

Year by year these mills increase both in personnel and output. A generation ago the press-agent, employed almost exclusively by theater folk, was generally regarded by the newspapers as a slinking pariah to be scorned and shunned by all God-fearing reporters. To-day despite the fact that he is at the same old game of getting something for nothing he is accepted everywhere and looked upon as a professional man. Press-agents such as Ivy Lee are respected and feared by working newspapermen. Canned interviews, canned reports of the doings of the Super-Babbitts, canned statements of their views on every conceivable topic from immortality to immorality are not only accepted but dished up to readers as legitimate news. A few weeks ago a press-agent advertised his services in the columns of The New York *Times*, something that would have been absolutely impossible a few years back. It is estimated that there are over one thousand working press-agents who spend all their time on the job in this country to-day and there are many thousand more who take on press-agenting as a side-line. Wealthy seekers for fame and the ear of the public, whether they go in for bath-tub parties or national politics, find a press-agent as necessary as a bank-account.

More and more reporters are finding it easier to call up the press-agent and take his mimeographed version of a news event than to cover the story in person. With the advent of the press-agent began the decline of newspaper reporting to the low level it has sunk to to-day.

Now whereas before the war the bulk of the propaganda sent to the press by agents was harmless enough, the new techniques for hokum slinging developed by bureaus of information and the like during our war to end war were brought to bear upon vital matters directly touching the welfare of all of us. We cannot soon forget the very masterly and subtle manner in which the Government con-

trol of railways was sabotaged by the press-agents of special privilege until the people were actually sold the myth that Government control was a failure. From railways the propaganda spread to coal mines, water-power and electrical utilities, in short it was used so effectually to bolster up the arguments for private exploitation of public resources that it will require a vast amount of argument to persuade the people that they can run their own businesses.

Propaganda and Public Utilities

No better example of the manner in which propaganda is being used directly against the interests of the people themselves is offered than the activities of the National Electric Light Association. Day by day from its New York offices issues a veritable stream of propaganda in favor of the private monopoly of public utilities. Mr. Raushenbush, who by the way has caused this group considerable worriment by his exposure of their distortion of facts and figures, has already told this conference some of the ways in which they make the worse appear the better cause. With the prestige that comes from such advertising expenditures as that made by the General Electric, the Association's propaganda is assured of a hearty welcome in the news columns of nearly every large circulation newspaper in the country. The bulk of this appears on the financial pages alongside the advertisements of investment houses offering utility stocks for sale but when any particularly brazen steal of public property is contemplated the press material issued by the Association is well featured. The Association undertakes to censor every speech of any importance made by utility spokesmen the country over, thus establishing a unified policy and concentrating fire on a few salients.

To this end they have gotten up a hand-book for speakers which not only gives the principal arguments for private exploitation but also contains a general treatise on the art

of public speaking with directions for holding the attention of a crowd, the correct posture for a speaker etc.

Radio

Through widespread use of the radio under the guise of "educational talks," through the papers, through conventions and conferences, through direct-by-mail material and of course through paid advertising as well, the Association has done yeoman's work in deluding one hundred and ten million Americans into the belief that the utilities companies are in business for service, with profit as an insignificant side-line.

The A. T. and T.

The American Telephone and Telegraph Company, Alma Mater of the Bell system, is another concern whose publicity methods are worth studying. One wing of the Information Department, in other words the propaganda branch, devotes its activities to nothing but an attempt to discredit public ownership the world over.

This is the sketchiest and by no means comprehensive outline of the forces which are at work to maintain the status quo and to persuade John Smith, average American citizen, that he lives in "the best of all possible worlds" and that any one who attempts to substitute another system of society is an ingrate who should be promptly confined.

Need for Labor Press

Obviously, we could make some sort of a breach in this capitalist defense if we had a live labor press in this country. The bitter truth is that the majority of our labor papers are in a state of far from innocuous desuetude. The average labor paper not only has no influence on the community as a whole but has very little influence upon its worker

readers. One reason for the decline of the labor press is to be found in the ironic fact that it has so little freedom. In most cases it is nothing more than an administration mouthpiece, its editors have no latitude of expression and the rank and file no voice in its columns.

Small wonder that the worker, after glancing at his union paper when he has come home tired, throws it contemptuously into the waste basket and turns to the far more interesting doings of the Gumps or the last word from the racetracks. What does he find in his labor paper? The frontispiece is usually a close-up picture of the president of the union with a laudatory caption. The paper is filled thereafter with pictures of the vice-president shaking hands with some prominent public official, pictures of the executive board in solemn conclave at some summer resort and one or two poorly drawn cartoons depicting the ousting of the radicals in the union by the stern-visaged Rights. As for reading matter, nothing could be duller than the average labor paper. There are long and largely fictitious accounts of the last trip taken by the president with certain of the more colorful details conveniently omitted. There are statements issued by the officials in regard to every topic under the sun, save those topics of most interest to the rank and file. There are dreary and detailed accounts of the unimportant doings of local unions, and as a final insult there is a page for the women and "kiddies" containing Hints to Housewives and patterns for dresses which are so antiquated that the Ladies Home Journal would have rejected them for their issues of 1892. The rest of the material is boiler-plate pure and simple, usually stolen from a capitalist syndicate or laboriously clipped from capitalist papers by the disheartened editor.

A Proposal

While it has frequently been pointed out that lack of adequate advertising, the necessity for endowment, and the

failure to promote labor papers in business-like fashion are all responsible for the decline of the labor press, I am nevertheless optimistic enough to believe that lack of freedom of the press in labor circles is the main obstacle to progress and that when the rank and file is given a readable, lively, uncensored, well illustrated paper that touches on matters of vital interest to the average worker, support will be found and the labor press will start on the upward road again. As a basis for this optimism I have in mind the products of such comparatively fearless and intelligent labor editors as Oscar Ameringer of the *Illinois Miner*, Albert Coyle of the *Brotherhood of Locomotive Engineers Journal*, Charles Ervin and Joseph Schlossberg of *The Advance*, Louis Budenz of *Labor Age* and one or two others. Granted, however, that we cannot turn to the Labor Press for weapons to attack the onslaughts of capitalist propaganda, what can we as a group, aware of the force of this propaganda, do about it? It may seem strange that after all my derogatory remarks about publicity and publicity methods I should now advocate that we go into something of the same sort. For the present and under the present system I see no other way out. I therefore urge that the League for Industrial Democracy appoint a committee of experienced men and women to make a thorough study of modern methods of propaganda with the end in view of establishing our own publicity bureau through which we could disseminate to the public, largely through the medium of the capitalist press, our own ideas and ideals. So far as I know, such a bureau would duplicate none of our organizations but would be a mouthpiece for all of them. If it is to have any value it should be made permanent, giving a fair remuneration to those whom it permanently employs. As I see it now, it must be subsidized at the beginning, but there is no reason why in a few years it should not be made self-supporting and become an invaluable asset for all of those groups and individuals who are struggling to influence public opinion in the direction

of a real industrial democracy. (On Dr. Laidler's motion a committee such as was suggested by Mr. Coleman was appointed by Chairman Thomas to formulate a plan for a permanent labor publicity bureau.)

SECTION VII. POWER, COAL, FORESTS

PRIOR to the sessions on "New Tactics in Social Conflict," at the Twelfth Annual Summer Conference of the League for Industrial Democracy, two sessions were devoted to the important problems of "Power, Coal and Forests."

H. S. Raushenbush, Secretary of the Committee on Coal and Giant Power, in his opening Round Table discussion, gave a survey of the light and power situation in America, the result of a number of months' study. In very brief he pointed out that, in the last six years, the lighting rates throughout the country had only dropped one-half cent, while the production had increased by fifty per cent. and the gross revenues, by sixty-six per cent.

"The operating ratio [the speaker declared] has improved twenty-one per cent. in the last six years. *Large scale production and the improvements in engineering and the earnings of the holding companies warrant further reduction in rates.* The recent cut in power rates of twenty-eight per cent by the Tacoma municipal plant is an illustration of the need for a few publicly owned developments throughout the country to act as gages to a nation-wide system of private ownership.

"Muscle Shoals, the St. Lawrence and Boulder Dam are far more important than they seem to be to the electric light consumers of the nation. If kept in public ownership and operation, they are bound to exercise a powerful pressure to keep light and power rates down. Muscle Shoals is now operated and owned by the Government and is already selling power at the rate of 670 million kilowatt hours a year, putting it among the thirty biggest plants in

the country. The private companies should have no honest objection to the competition of three or four large publicly owned developments throughout the country.

"Two-thirds of the power of the country is controlled by twelve holding companies and six of them control one-third of the nation's water power. They are organized on a national basis, while the public is still trying to control them through the competition of small municipal plants and through the state commissions. Changes in engineering are making all isolated small plants, both private and municipal, out of date and the public can no longer expect them to keep the rates of the private companies down. *Large generating and distributing units such as Muscle Shoals, the St. Lawrence and Boulder Dam must be publicly owned and operated to furnish the public a check on the power industry.*"

Mr. Raushenbush further maintained that the public was not adequately protected through the limited regulation permitted by the courts and would not be protected under private ownership unless statutes were passed fixing all present values at some definite figure and providing that all new companies or all new developments would be valued at cost only.

"This is the procedure in the Federal Water Power Act of 1920," he declared, "and is the only way to protect the consumers from the principles laid down in the New Jersey Telephone case in April *where it was decided that the customers must pay a return even on all property bought out of excess earnings. The statutes should specify the return in advance and forbid the distribution to investors of excess earnings.* Until this is done in all states our system of regulation will remain inadequate, we will have to pay higher rates than necessary or just. In the meantime a few large publicly owned and operated units are essential if we are to get the benefits from the large scale development of this industry."

Dealing with the efficiencies of the industry, he expressed

it as his belief that they were not due to the holding companies but to engineering improvements.

"The only way in which many of the holding companies can pay dividends and interest on all the paper they are pyramiding on top of the operating companies is to secure valuable long time contracts with the local companies, which now seem reasonable but which with the growth of the industry will become excessive. Through these contracts they will get enough profit to pay interest on a lot of paper which, as Chairman Atwill of the Massachusetts Department of Public Utilities says, represents practically nothing at the present time except various goodwills and theories of people that the value of these various properties are such that they should be allowed to issue the paper against them."

Mr. Raushenbush also discussed state and federal control of the power industry and the conflicting claims of the advocates of giant and super-power.

In his discussion on coal, he spoke of the increase in the production in unorganized bituminous mines as compared with mines employing members of the United Mine Workers, and of the serious conflict which was looming up for 1927. He dealt with the concentration in the anthracite mines and the waste and unemployment in the bituminous industry and declared that he saw no real way out of the difficulty short of nationalization.

Subsequent to these discussions, the following resolution, presented by Louis Waldman and H. S. Raushenbush, was passed by the Conference:

"It is the opinion of this group that the large scale development and unified financial control of the power industry should be met by state and federal ownership and operation of generating power throughout the country (and such major transmission systems as will necessarily be built in connection with them) sufficient to protect the public from the inadequacies resulting from the present system of private ownership and state regulation."

At the Friday morning session, a strong plea for the acquisition by the United States Government of public forests at an increasingly rapid rate in an effort to preserve the forest lands of the country from destruction, was made by Edward Richards, Consulting and Operating Forester.

"The cut over area of our forests is being increased," declared Mr. Richards, "at the rate of 3,000,000 acres a year. On the other hand, the government is acquiring the remaining forests at the rate of only one-half a million acres a year. Our original forest land aggregated 822,000,000 acres. To-day we have only 138,000,000 acres of the original forests left. 250,000,000 acres of second growth is of no commercial value. There are 81,000,000 acres in this country of barren devastated waste. *The growth is only one-quarter of what we now cut, and this growth is made up largely of undesirable species of trees.* In addition, terrible destruction by fire, fungus disease, and insect pests continue to sweep the country practically unchecked.

"Private ownership of forests throughout the world has resulted almost without exception in their abuse. For this reason France, Germany, England, and other countries are increasing the amount of publicly owned forests. In the United States the nationally owned forests now total 158,395,056 acres. In addition there are approximately 12,000,000 acres more owned by the various states. Twenty-three states now have definitely organized state forests. The inadequacy of the rate of acquisition by the United States—one-half million acres a year—can be illustrated by the progress made by New Zealand. The forests there total about 17,000,000 acres, of which 73 per cent. (in 1925) are under public ownership. Since 1919 the acquisition of forest land for the New Zealand National Forests has increased 80 per cent."

Mr. Richards dwelt on the necessity of a good forest system from the standpoint of social welfare. Our industries

are directly or indirectly dependent on the products of the forest. Coal cannot be mined without mine timbers; railroads cannot be built without wooden ties. Lumber is necessary for the farm. Books, newspapers, magazines, are directly dependent on forests, as is the navigability of our streams.

Mr. Richards also showed how a constant supply of water power could not be obtained without an adequate forest source. The existence of forests materially assists in the regulation of stream flow, prevents the erosion of soil, which is a serious obstacle to navigation and to the use of water for power and domestic purposes. The problem of erosion is acute in certain important parts of this country, especially in the neighborhood of Boulder Dam and the Muscle Shoals project. The speaker likewise called attention to the efforts of cattle owners throughout the world to sacrifice the forest to grazing.

The sentiment in the Conference in regard to forest preservation was summed up in the resolution submitted by Mr. Richards:

"Whereas under any social order the fundamental basis of life rests upon the supply of natural resources available for human need, and whereas modern industrial enterprise depends directly and indirectly upon our forests for the raw material from which to manufacture the necessities of life, and whereas it is plainly evident that adequate steps are not being taken to protect, cultivate and increase our forest resource, therefore be it Resolved that we, the Annual Conference of the League for Industrial Democracy, heartily endorse the acquisition of forest land by the Federal, State, and Municipal governments and desire to see the rate of such acquisition greatly increased and furthermore we are convinced that private owners of forest land have a responsibility toward the nation so to manage their forests that they are not destroyed but are handled in accord with the dictates of scientific forestry, and that adequate changes should be made —either by constitutional amendment or legislation or both— to regulate the amount and nature of permissible cutting of

remaining forests still in private hands to the end that our present national timber supply shall be made to last as long as possible toward the time when our forests which have already been destroyed can be regrown."

THE END

THE CAUSE OF
LABOUR IS THE
HOPE OF THE WORLD
Proclaim Liberty throughout
All the land unto All the
Inhabitants thereof.